Economic Policy Reforms

Going for Growth

2015

OECD

Economic Policy Reforms 2015

GOING FOR GROWTH

BETTER POLICIES FOR BETTER LIVES

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Please cite this publication as:
OECD (2015), *Economic Policy Reforms 2015: Going for Growth*, OECD Publishing, Paris.
http://dx.doi.org/10.1787/growth-2015-en

ISBN 978-92-64-22044-7 (print)
ISBN 978-92-64-22046-1 (PDF)

Annual: Economic Policy Reforms
ISSN 1813-2715 (print)
ISSN 1813-2723 (online)

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Corrigenda to OECD publications may be found on line at: *www.oecd.org/about/publishing/corrigenda.htm*.

Going for Growth *was launched in 2005 as a new form of structural surveillance complementing the OECD's long-standing country and sector-specific surveys. In line with the OECD's 1960 founding Convention, the aim is to help promote vigorous sustainable economic growth and improve the well-being of OECD citizens. This surveillance is based on a systematic and in-depth analysis of structural policies and their outcomes across OECD members, relying on a set of internationally comparable and regularly updated policy indicators with a well-established link to performance. Using these indicators, alongside the expertise of OECD committees and staff, policy priorities and recommendations are derived for each member and, since the 2011 issue, six key non-member economies with which the OECD works closely (Brazil, China, India, Indonesia, the Russian Federation and South Africa). From one issue to the next,* Going for Growth *follows up on these recommendations and priorities evolve, not least as a result of governments taking action on the identified policy priorities.*

Underpinning this type of benchmarking is the observation that drawing lessons from mutual success and failure is a powerful avenue for progress. While allowance should be made for genuine differences in social preferences across OECD members, the uniqueness of national circumstances should not serve to justify inefficient policies. In gauging performance, the focus is on GDP per capita, productivity and employment. As highlighted in the past and again in this issue, this leaves out some important dimensions of well-being. For this reason, Going for Growth *regularly features thematic chapters dedicated to these other dimensions, and looks at the effects of growth-enhancing priorities on other government policy objectives.*

Going for Growth *is the fruit of a joint effort across a large number of OECD Departments.*

www.oecd.org/eco/goingforgrowth.htm

Editorial: Breaking the vicious circle

More than six years after the onset of the financial and economic crisis, a return to the pre-crisis growth path remains elusive for a majority of OECD countries. In most advanced economies, potential growth has been revised down and, in some cases, there are growing concerns that persistently weak demand is pulling potential growth down further, resulting in a protracted period of stagnation. Risks of persistent stagnation concern mainly the euro area and Japan, but many of the underlying challenges such as slowing productivity, high long-term unemployment and falling labour force participation are common to other advanced economies. In major emerging-market economies, growth has become far less impressive in the last year or two, owing to a varying extent to infrastructure bottlenecks, financial sector vulnerabilities and resource misallocation. The slowdown has been particularly sharp in countries most exposed to commodity price developments.

Restoring healthy growth, while ensuring that the gains are broadly shared, requires determined and systematic actions across a broad range of policy areas. In this context, the slowdown in the pace of structural reforms observed across a majority of OECD countries over the past two years and documented in this report does not augur well. Where the reform slowdown reflects the need for governments to focus on effective implementation following a period of intense reform activity – as may be the case in most peripheral euro area countries – this needs not necessarily be as big a concern, as long as the pace remains elevated. The success of reforms also requires that time and efforts be devoted to approving follow-up legislation and ensuring full implementation by lower-level jurisdictions.

More worrying is the likelihood that in most cases the slower pace of reform reflects growing difficulties by governments in pushing for reforms in a context of chronic demand shortfalls. Such difficulties could arise from concerns that the benefits from reforms introduced in cyclical conditions such as those prevailing in the majority of advanced countries may fail to bear fruit or, worse, be counter-productive. A related concern is that structural reforms may exacerbate income inequalities, undermining popular support for a pro-growth reform agenda.

These are legitimate concerns. In some of the countries hardest-hit by the crisis, substantial labour market reforms aimed at restoring competitiveness have been introduced without commensurate and parallel efforts in product markets and without the availability of fiscal resources to cushion the social impact. The result has been severe job and income losses, hurting young people the most. More broadly, there are indications that the most vulnerable households have been losing ground since the crisis across a majority of OECD countries.

Yet, a slowdown in the pace and breath of reforms carries a bigger risk. That is of letting a vicious circle develop, whereby weak demand undermines potential growth, the prospects of which in turn further depress demand, as both investors and consumers become risk averse and prefer to save. Breaking the circle requires the contribution of both macro and structural policies. But at a time when macro policies still operate under various (and varying) constraints across major economies, it is important that the structural reform agenda put more attention on those measures that in addition to boosting productivity and job creation in the medium term can best support demand in the near term.

Promoting investment is clearly one way to achieve this, including investment in public infrastructure. Addressing shortages through better provision and regulation of infrastructure is a common priority across emerging-market economies, notably to support high rates of industrialisation and urbanisation. It has become also a priority in several advanced economies, where years of inadequate maintenance and renewal have put infrastructure under stress, not least in transport and energy. The current low borrowing costs environment constitutes a good opportunity for governments to develop infrastructure that will facilitate the necessary transition to a low-carbon economy while sustaining growth.

Spending on infrastructure will most certainly help stimulate private investment but complementary action is also needed. In this regard, *Going for Growth* provides a broad set of recommendations to improve firms' incentives to invest in new markets and technologies. Chief among them is the reduction in regulatory barriers to competition, both to facilitate business start-ups and encourage incumbents to pursue innovation as a means to keep the competitive edge. Investment in R&D and other forms of knowledge-based capital – fundamental to bring new technologies and products to the market – continues to be hampered in many countries by various legal and administrative obstacles to the setting-up and expansion of new firms as well as by barriers to the reallocation of labour and capital resources both within and across firms. Priorities in this area include reforms of labour market regulations, housing market policies and bankruptcy legislation, with a view to encourage entrepreneurship and mobility. In emerging-market economies, priorities also include reforms of the financial sector or the judiciary system to strengthen the rule of law (Brazil, China, Mexico, India, Indonesia and the Russian Federation).

Promoting cross-border trade and investment can also help support global demand while boosting potential growth in individual countries. Greater openness to foreign trade and investment is crucial for the diffusion of new technologies and managerial best practice. Yet, barriers to trade and foreign direct investment concern both advanced and emerging-market countries. High tariffs on a variety of products still prevail in emerging-market economies, while in advanced countries, many services sectors and other sensitive areas such as agriculture and government procurement remain largely closed to foreign competitors. Reducing these barriers, rolling back the protectionist measures that have crept in since the crisis, and accelerating the implementation of trade facilitation measures such as simplified customs procedures would clearly help to reverse the trend slowdown in global trade relative to world production.

Innovation and global market integration are key drivers of productivity gains and should be strongly encouraged. However, measures are also needed to ensure that the gains are broadly shared. Past experience indicates that faster technological development and diffusion may well further increase the dispersion of wages by raising the demand for high-skill workers. In the medium term, such risk is best mitigated through education and skills development. Reforms in these areas are viewed as a priority in a vast majority of advanced and emerging-market economies. The report contains specific recommendations to broaden access to higher education, including vocational education, as well as to improve opportunities for training and up-skilling throughout the working life. In most emerging-market economies, as well as in Australia, France, Germany and the United States, providing a broader and more equal access to quality education at the primary and secondary levels is also a priority.

In the nearer term, rising inequalities and the social consequences of the crisis call for policy packages that can stimulate growth, reduce income dispersion and promote inclusion. Reconciling these objectives is challenging but in countries facing high long-term unemployment rates it can be achieved with measures that improve job opportunities and the earnings potential of low-skilled workers. For many European countries, reducing labour tax wedges to boost job creation and reforming active labour market policies to help matching workers with jobs are key policy priorities. Such reforms can be funded by shifting taxation towards indirect sources such as consumption or – preferably from an equity or environmental perspective – immovable property, inheritance and green taxes. In countries such as Germany, Japan and Korea, further reforms of the tax and transfer systems, including childcare services, would help support growth by bringing more women in the labour market. Narrowing the gap in the degree of job protection between different types of contracts would facilitate their full integration within firms and improve their career prospects. Reforms of job protection legislation combined with extensions of social protection are also a priority in several emerging-market economies so as to shift protection from jobs to workers and thereby reduce informality.

There is a risk that the broader benefits from reforms could take more time than usual to materialise in the current environment. In such a context, reform strategies that are sufficiently comprehensive to create synergies across policy areas will have a better chance to succeed. Even more so if they provide clear guidance about the direction and sustainability of policy decisions. In this regard, the commitment by G20 countries to implement new measures to lift their collective output by 2% over the next five years is to be welcomed. *Going for Growth* contributes to this objective by helping governments to push ahead with their national growth strategies.

Catherine L. Mann
Chief Economist, OECD

Table of contents

ISO codes

The codes for country names and currencies used in this volume are those attributed to them by the International Organization for Standardization (ISO).

Country code	Country name	Currency code
AUS	Australia	AUD
AUT	Austria	EUR
BEL	Belgium	EUR
BRA	Brazil	BRL
CAN	Canada	CAD
CHE	Switzerland	CHF
CHL	Chile	CLP
CHN	China	CNY
COL	Colombia	COP
CZE	Czech Republic	CZK
DEU	Germany	EUR
DNK	Denmark	DKK
ESP	Spain	EUR
EST	Estonia	EUR
FIN	Finland	EUR
FRA	France	EUR
GBR	United Kingdom	GBP
GRC	Greece	EUR
HUN	Hungary	HUF
IDN	Indonesia	IDR
IND	India	INR
IRL	Ireland	EUR
ISL	Iceland	ISK
ISR	Israel	ILS
ITA	Italy	EUR
JPN	Japan	JPY
KOR	Republic of Korea	KRW
LUX	Luxembourg	EUR
LVA	Latvia	LVL
MEX	Mexico	MXN
NLD	Netherlands	EUR
NOR	Norway	NOK
NZL	New Zealand	NZD
POL	Poland	PLN
PRT	Portugal	EUR
RUS	Russian Federation	RUB
SVK	Slovak Republic	SKK
SVN	Slovenia	EUR
SWE	Sweden	SEK
TUR	Turkey	TRL
USA	United States	USD
ZAF	South Africa	ZAR

Note: EU refers to the average of 21 European Union members of the OECD.

Executive summary

The financial crisis and continued subdued recovery have resulted in lower growth potential for most advanced countries, while many emerging-market economies are facing a slowdown. In the near term, policy challenges include persistently high unemployment, slowing productivity, high public-sector budget deficit and debt, as well as remaining fragilities in the financial sector. The crisis has also increased social distress, as lower-income households were hit hard, with young people suffering the most severe income losses and facing increasing poverty risk. Longer-term challenges include coping with population ageing as well as with the effect of skill-biased technical change on income inequality and the impact of environmental degradation on health and future growth. Robust structural policies are needed to address many of the short- and medium-term challenges faced by both advanced and emerging-market countries.

Going for Growth offers a comprehensive assessment to help governments reflect on how policy reforms might affect their citizens' wellbeing and to design policy packages that best meet their objectives. The report identifies key reform priorities to boost real incomes and employment in advanced and major emerging-market countries. The priorities broadly cover product and labour market regulation, education and training, tax and benefit systems, trade and investment rules, and innovation policies. The *Going for Growth* framework has been instrumental in helping G20 countries to develop growth strategies to raise their combined gross domestic product (GDP) by 2%, one of the main policy objectives set by the G20 in 2014 to achieve sustained and balanced growth.

The primary focus of *Going for Growth* is on improving material living standards in the medium term, but the report also sheds light on trade-offs and complementarities with other wellbeing objectives, such as reducing income inequality and mitigating pressures on the environment. More specifically, it reviews the evidence on the effect of pro-growth structural reforms on wage dispersion and household income inequality and examines whether specific policies driving GDP growth over the past decades may have also contributed to widening inequalities. The report also examines the environmental pressures related to economic growth. It discusses in this respect the role of structural reforms and environmental policies and presents evidence on the importance of adequate design of environmental policies as well as their impact on productivity growth. Finally, this issue of *Going for Growth* includes a special chapter reviewing broad trends in structural reforms since the early 2000s.

Progress on structural reform since 2013

- The pace of structural reforms has slowed in the majority of advanced countries across the OECD over the last two years. This follows a period of significant acceleration in the aftermath of the crisis, partly driven by market pressures associated with the euro area debt turmoil.
- Reform activity remains high, albeit declining in Greece, Ireland, Portugal and Spain, and has increased in Japan. It remains relatively weak in most Nordic and euro area core countries.
- Across the OECD, countries have given priority to education and active labour market policies (ALMPs), consistent with the importance of knowledge-based capital and complementary skilled labour as sources of growth, and mindful of the persistence of unemployment in a context of weak recovery.
- The pace of reforms has been accelerating in major emerging-market countries, reflecting the awareness of bottlenecks and constraints to growth and the need to reduce vulnerability to fluctuations in commodity prices and capital flows.

New reform priorities

- Labour productivity remains the main driver of long-term growth. Priority should be given to reforms aimed at developing skills and knowledge-based capital. Raising the quality and inclusiveness of education systems will underpin this.
- Reallocation of resources in the face of adjustment is key to achieving higher growth. Governments need to improve policy settings in competition and innovation to facilitate the entry of new firms and the smooth reallocation of capital and labour towards the most productive firms and sectors. In Southern euro area countries, product market reforms, especially in services, are needed to reap the benefits of labour market reforms introduced in recent years.
- Growth can be made more inclusive by removing obstacles to higher employment and labour market participation of underrepresented groups such as women, youth, low-skilled and older workers. Encouraging faster reallocation to new jobs and ensuring that workers can up-grade skills would further boost employment and promote inclusion.

Pro-growth structural reforms and income distribution

- Some pro-growth policies that raise GDP through increased productivity may contribute to technology-driven inequality. For instance, reforms that boost innovation may widen the wage distribution among employed workers.
- Other policies that promote labour force participation and job creation also widen the wage dispersion. However, because they contribute to raising employment – not least among lower-skilled workers – such reforms have a neutral effect on the dispersion of households' disposable income.
- Given the need in many countries to tackle rising inequalities and hardship, governments should give priority to pro-growth policy packages that help promote equity and inclusiveness. It is particularly important to lift the earnings potential of the low-skilled and make it easier for women to join the labour force.

Pro-growth structural reforms, the environment and environmental policies

- Economic growth usually comes with higher pressures on the environment. And, the relationship between growth and the environment is influenced both by environmental policies and the structural policy framework against which they are implemented.
- Some growth-enhancing reforms such as increasing environmental taxes, introducing road pricing or removing harmful subsidies can be good for the environment. Others enhance the effectiveness of environmental policies. This is the case of improving the rule of law or competition policies.
- Environmental policies that are flexible and neutral with respect to technological choices and that minimise barriers to competition can effectively protect the environment without causing significant harm to economy-wide productivity.

Reform trends since 2005

- Since the first issue of *Going for Growth* in 2005, the pace of structural reforms has remained roughly constant on average across OECD countries, with the exception of a notable acceleration in the aftermath of the crisis.
- Reform activity has resulted in substantial improvement in some policy areas. This is the case for product market regulation, the design of pension systems and unemployment income support programmes.
- Overall, structural reforms implemented since the early 2000s have contributed to raising the level of potential GDP per capita by around 5% on average across countries, with most of the gains coming from higher productivity.
- Further reform towards current best practice could raise the long-term level of GDP per capita by up to 10% on average across OECD countries. This is equivalent to an average gain of around USD 3 000 per person.

Economic Policy Reforms 2015
Going for Growth

Chapter 1

Taking stock of reform action and identifying priorities in 2015

This chapter assesses progress that countries have made in responding to Going for Growth *policy recommendations since 2013. Against this background, it identifies and discusses new priority areas where structural reforms are needed to lift growth across OECD and partner countries.*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Main findings

- The pace of structural reforms has been slowing in the majority of advanced countries across the OECD over the last two years. This follows a period of significant acceleration in the aftermath of the crisis, partly driven by market pressures during the euro area debt turmoil:
  - ❖ For many countries, this slowdown could be attributed to adverse cyclical conditions amid constrained fiscal and monetary policies, which are weighing on governments' capacity to promote and sustain the reform agenda, as well as to the need to ensure that past legislated reforms are implemented.
  - ❖ Reform activity remains high, albeit declining, in Greece, Ireland, Portugal and Spain, and has increased in Japan. By contrast, reform activity remains weak and has been even declining in most Nordics and most euro area core countries, although to a varying extent.
  - ❖ Across the OECD, countries have given priority to education and active labour market policies (ALMPs), consistent with the importance of knowledge-based capital as a source of growth and the persistence of unemployment in a context of weak recovery.
- The pace of reforms has been accelerating in major emerging-market countries, in particular China and Mexico, reflecting the awareness of bottlenecks and constraints to growth and the need to reduce vulnerability to fluctuations in commodity prices and capital flows.
- New recommendations are set up to address the long-term challenges and potential tradeoffs while supporting the recovery in the short term.
- Labour productivity remains the main driver of growth. Priority should be given to reforms aimed at developing skills and knowledge-based capital. Raising the quality and inclusiveness of education systems will underpin this.
- Improving policy settings in competition and innovation is needed to facilitate the entry of new firms and the smooth reallocation of capital and labour across firms and sectors. In the euro area periphery, product market reforms, especially in services, are needed to reap the benefits of labour market reforms that have been introduced in recent years.
- In lower-income countries, priority should be given to further improving access to quality education as well as the provision and regulation of physical and legal infrastructure. Reforms in these areas are needed to continue narrowing the gap in material living standards *vis-à-vis* advanced economies.
- In many countries, removing obstacles to employment and participation, in particular among still underrepresented groups such as women, youth, the low-skilled and older workers, would boost growth and make it more inclusive.
- Shifting protection from jobs to workers, while achieving a better integration of social protection and active labour market policies, will facilitate both job creation and matching workers and jobs. Reforms in this direction can also reduce labour market duality and informality.

Introduction

Structural reforms are needed to address many of the short and medium-term challenges faced by both advanced and emerging-market countries. More than six years after the onset of the financial and economic crisis, the world economy is still weak. The great recession has dented potential output of most advanced countries, while most emerging-market economies are currently facing a slowdown. In the near term, policy challenges include persistently high unemployment, slowing productivity, high public-sector budget deficit and debt, as well as remaining fragilities in the financial sector and household balance sheets.

In addition, the crisis has increased social distress, as lower-income households were hit hard, with young people suffering the most severe income losses and therefore face increasing poverty risk. Addressing rising hardship is challenging in a context where the pursuit of public finance consolidation objectives in many countries puts pressures on traditional redistributive tools. Looking further ahead, underlying global trends that pre-dated the crisis pose formidable challenges, as discussed in the *OECD 50-Year Global Scenario*. These include the effect of population ageing on the level and sources of growth in gross domestic product (GDP) per capita, as well as the effect of the continuation of skill-biased technical change on income inequalities and the economic impact of environmental degradation (OECD, 2014a).

The *Going for Growth* analysis identifies five areas of structural reform priorities to boost growth and real income for each OECD country, for the European Union as a whole, and for the BRIICS – Brazil, China, India, Indonesia, the Russian Federation and South Africa. Two additional emerging-market countries are covered for the first time in the 2015 edition: Colombia and Latvia, which have started a process of accession to the OECD.

Policy recommendations are identified based on their scope for improving long-term material living standards through higher productivity and labour utilisation. This scope is assessed through the use of policy and performance indicators and their comparison across countries, as well through the expertise of OECD country desks. The recommendations broadly cover the areas of product and labour market regulations, human capital, tax and benefits systems and innovation policies.[1]

While the exercise is focused on improving GDP per capita in the long term through supply-side reforms, there are trade-offs and complementarities with other policy objectives. For example, some pro-growth reforms help to reduce income inequality, improve wider social outcomes and mitigate pressures on the environment, thus delivering stronger growth and greater inclusiveness. Others, however, involve undesirable effects on these objectives.[2] The effects of growth-enhancing reform priorities on income distribution and the environment are covered in Chapters 2 and 3.

This issue of *Going for Growth* includes a special chapter reviewing trends in structural reforms since the early 2000s, including actions taken in areas beyond those directly covered by *Going for Growth* policy priorities (Chapter 4). The current chapter focuses on the recent period and priority areas. It first provides a broad assessment of the progress that countries have made in structural reform priorities identified in the 2013 issue of *Going for Growth*. It then looks briefly at variations in labour productivity and labour utilisation across countries, in order to understand the relative areas of performance weaknesses by country. It then discusses the general orientation and focus of the policy recommendations that result from mapping performance to policy weaknesses for each individual country.

Progress on reform priorities since 2013

Measuring progress on priorities

To give a rough assessment of the progress made by countries in addressing reform priorities, a "responsiveness rate" indicator is constructed for each individual priority area in each country. In a nutshell, it measures the share of total policy recommendations on which governments in each country have taken some action. It considers only legislated as opposed to announced changes (Box 1.1).[3] The reform responsiveness indicator is a measure of the extent to which OECD countries have followed up on *Going for Growth* recommendations, but it does not aim to assess overall reform intensity *per se*, which would require both accounting for reforms carried out in areas not identified as priorities and quantifying the importance of each individual measure. Nor does it aim to assess effective reform implementation, as discussed below. While this indicator is therefore an imperfect substitute for proper reform assessments, it is used in this chapter because of its direct comparability across countries and timeliness. Chapter 4 of this report allows for a complementary assessment of past reform progress along with a tentative quantification of associated growth gains.

Box 1.1. **A qualitative indicator of reform action**

The reform responsiveness rate indicator is based on a scoring system in which recommendations set in the 2013 issue of *Going for Growth* take a value of one if "significant" action is taken and zero if not. An action is considered as "significant" if the associated reform addresses the underlying policy recommendation and if it is actually legislated: announced reforms are not taken into account.

Given that a single priority may entail more than one specific recommendation, the scoring is often based on more than one reform opportunity per priority area. For example, in the area of product market regulation, priorities can cover both economy-wide barriers to competition (e.g. excessive or non-transparent administrative burdens) as well as industry-specific barriers (e.g. weak competition in retail trade); in turn, such priorities can cover different industries (e.g. retail trade and electricity). Changes may concern one or several aspects of regulation. This is reflected in the scoring system rate by assessing reform responsiveness at the lower and more detailed level of specific recommendations (corresponding to reform opportunities) within each priority.

The following section focuses on actions taken on 2013 recommendations. Hence, it covers two years (2013 and 2014). It also offers a partial comparison with the previous period, i.e. reform responsiveness over the period 2011-12. Reform responsiveness cannot be assessed for Colombia and Latvia, because priorities are being identified in 2015 for the first time for those countries.

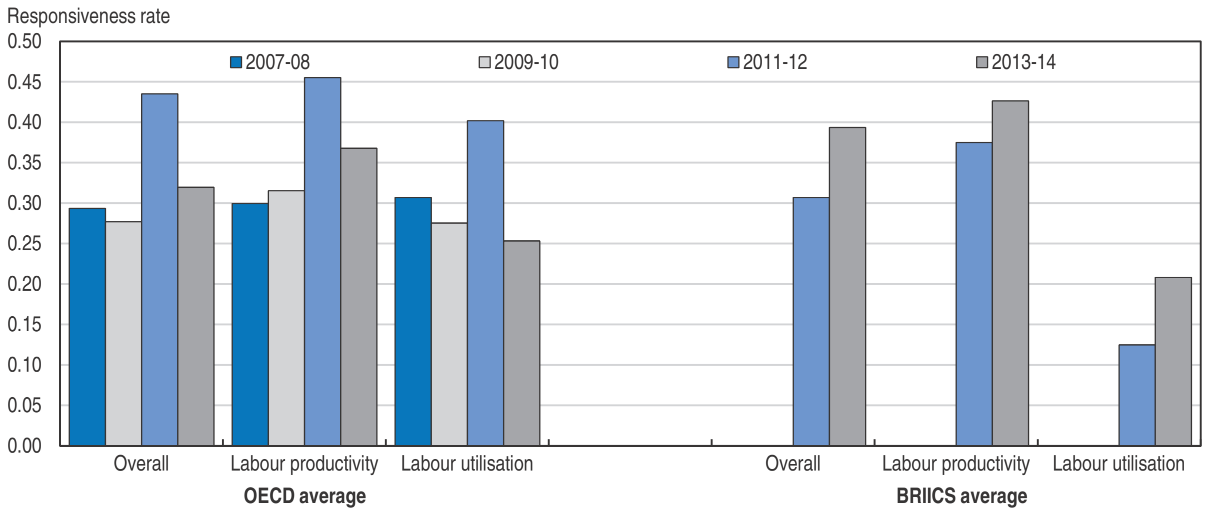
For more details see Box 2.2 and Annex 2.A1 OECD (2010a).

Reform progress across OECD countries and the BRIICS[4]

Following some acceleration in the aftermath of the crisis, OECD countries are showing signs of reform slowdown.[5] On average across the OECD, the pace of reform in areas of *Going for Growth* priorities reverted back to its pre-crisis level; it is slightly above its pre-crisis level in labour productivity-enhancing areas and slightly below in labour utilisation-enhancing areas (Figure 1.1). Reforms have been slowing in the majority of

Figure 1.1. **The pace of reforms has slowed in the OECD but has accelerated in the BRIICS**

Responsiveness to *Going for Growth* recommendations across the OECD and the BRIICS, 2007-14



Note: See Box 1.1 for the definition of the responsiveness rate.

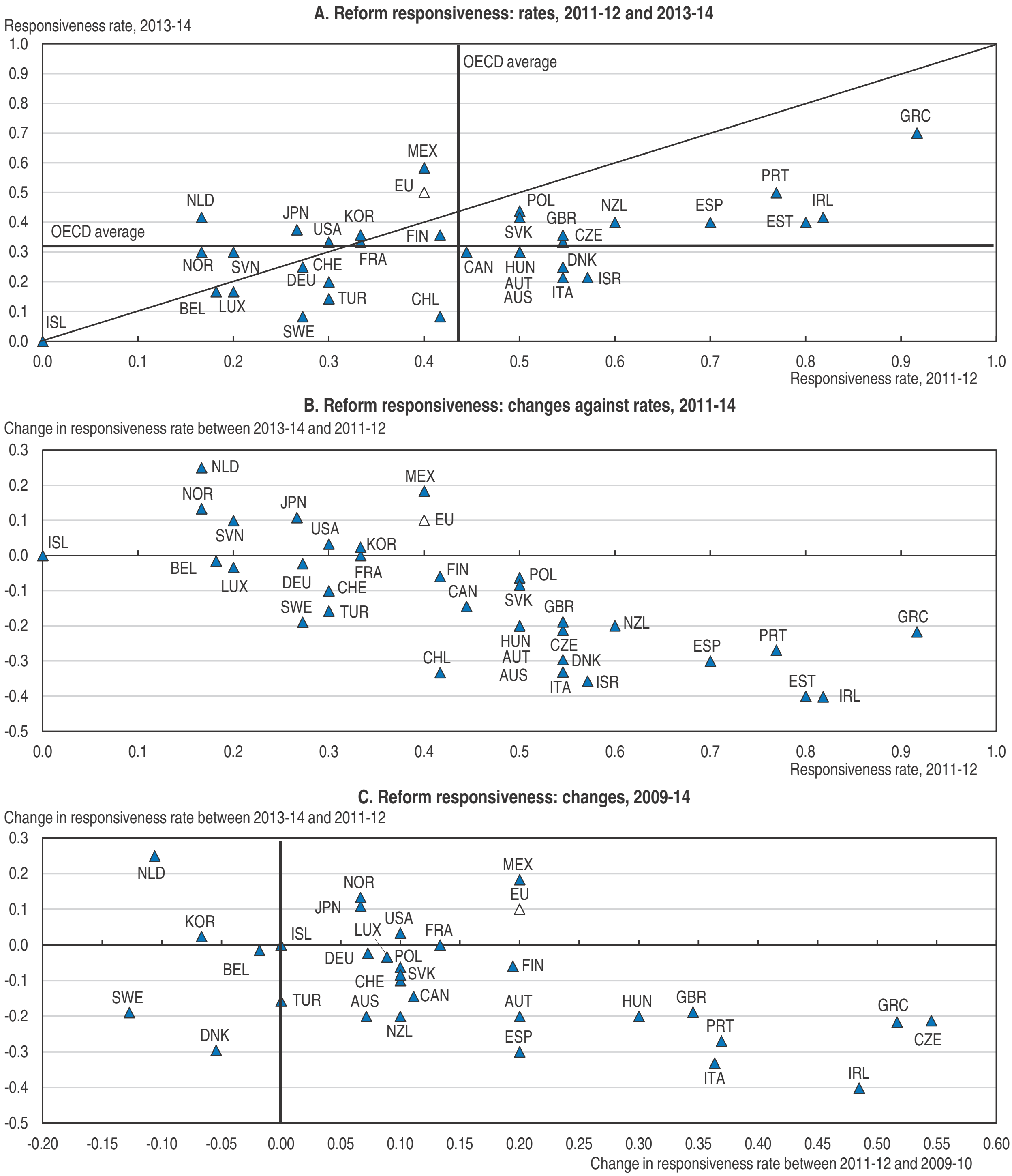
StatLink http://dx.doi.org/10.1787/888933177291

countries in 2013-14 (Figure 1.2, Panel A). This follows a period of intense legislative activity in the aftermath of the crisis, partly driven by financial market pressures in the context of the euro area debt turmoil (OECD, 2012a, 2013a). Indeed, the slowdown is most pronounced in those countries that exhibited highest levels and acceleration in reform responsiveness between 2009 and 2012, notably euro area periphery countries (Figure 1.2, Panels B and C). The pace of reform remains strong at the EU level and, even more so, in Mexico, while it is strengthening in Japan following the launch of the structural component of the "New Growth Strategy" unveiled in June 2013. Acceleration is taking place in the Netherlands and, to a lesser extent, Norway, which in earlier periods had shown little reform action.

Amid a general slowdown, the most and least active reformers across the OECD are generally the same countries in 2013-14 as in 2011-12, albeit with a narrowing of the gap between the two groups (Figure 1.2, Panel A). In other words, the pace of reforms is declining among the most active reformers and increasing somewhat among some of the least active recent reformers.

Fiscal consolidation imperatives may be weighing on the structural reform agenda of many countries, in particular in the European Union (European Commission, 2014a). For example, budgetary imperatives constraint the pursuit of tax reductions and tax shifting reforms, and also the capacity to compensate potential losers from reforms. However, fiscal consolidation and structural reforms objectives should not be traded against each other and can be pursued simultaneously. Many reforms achieve both goals because they strengthen public budgets, either directly or indirectly, via higher output and employment.[6] For example, pension reforms directly improve fiscal balances, while gradually delivering employment gains that further raise tax revenue and reduce public spending. In addition, expectations of enhanced long-term debt sustainability can reduce government borrowing costs and thereby help stimulate the economy.

Figure 1.2. **The slowdown is largest among previously fast-reforming countries**



Note: See Box 1.1 for the definition of the responsiveness rate.

StatLink http://dx.doi.org/10.1787/888933177307

Concerns associated with possible adverse effects of structural reforms under current cyclical conditions may also contribute to the reform slowdown. One concern is that GDP gains may take time to materialise or be preceded by short-term losses given wide aggregate demand shortages and deflation risks amid constrained macroeconomic policies and impaired fiscal positions in many countries, especially in the euro area. One particular risk is that pro-competition reforms may become counter-productive, namely contractionary, in the short to medium-term if monetary policy is constrained at the zero lower bound (ZLB) and, hence, unable to accommodate supply expansion by the standard means lowering policy rates (Eggertsson et al., 2014).[7] However, previous model and evidence-based analysis on the short-term impact of structural reforms suggests that such concerns could be exaggerated and delivers lessons to bring forward reform-driven gains (OECD, 2012a):

- Most structural reforms appear to boost growth fairly quickly, while usually very few if any have short-term costs.[8] However, in a few cases, growth benefits may take more time to materialise in a downturn, and long-term growth gains can be preceded by short-run losses. For example, in a context of severe labour market slack, social protection reforms aimed at encouraging jobseekers' return to work through a tightening of conditions for receiving unemployment benefits can temporarily depress employment. Postponing such reforms until the labour market shows clear signs of recovery is legitimate in economies still facing weak demand.
- The short-term impact of structural reforms will be stronger if an effective communication strategy and a strong and well-regulated banking sector foster confidence and induce households and firms to spend against future reform-driven income gains. Clear and timely information about reform implementation and its expected benefits can help boost demand.

The reform slowdown could also reflect the need to move from legislation to implementation, which is difficult to measure. In order for reforms to deliver, governments need to ensure that legislated changes are applied. The challenge is particularly acute when many ambitious reforms have been introduced in a short period of time, such as in the euro area periphery countries,[9] where the slowdown appears most pronounced. Recent EU and OECD surveys for those countries emphasise a number of practical obstacles which are creating a discrepancy between formal adoption of reforms and their actual implementation. Such is the case of the approval of necessary secondary legislation, the transmission of laws from central to local governments, court challenges, insufficient or ineffective administrative capacity and inadequate advertising of new measures.[10]

Another factor potentially slowing down the reform agenda is the concern that structural reforms may have contributed to increased income inequality, or may do so in the future. Indeed, data on household incomes suggest that the most vulnerable have been losing relative ground since the onset of the crisis (OECD, 2014d):[11] on average across the OECD, the income of the bottom 10% of the population declined by 1.6% per year between 2007 and 2011. The drop has been twice as large as the decline observed for the top 10% over the same period. Young people have been suffering the most severe income losses, which has increased their poverty risk. Large increases in disposable income inequality and poverty occurred in those countries hit hardest by the crisis: Greece, Iceland, Ireland and Spain, in a context where fiscal consolidation imperatives have constrained the use of taxes and transfers to protect vulnerable households from hardship.[12]

Distributional concerns are more than legitimate and should be addressed. However, such concerns are best addressed through reform strategies that take into account the impact of structural policies on the distribution of wages and household incomes (see Chapter 2). Many reforms can achieve both growth and equity objectives. In fact, empirical evidence shows that most pro-growth reforms either have little net effect or reduce household income inequalities in the medium to long term, especially when they promote job creation and employment opportunities benefiting low-skilled workers.[13] Still, some reforms may hit the most vulnerable in the short run, even if such negative effects are overturned in the medium run. Such may be the case of reforms of wage bargaining institutions aimed at raising the responsiveness of wage adjustments to cyclical and local labour market conditions. The employment gains expected from such reforms may take a longer time to materialise under weak cyclical conditions. This risk makes it all the more important to monitor trends in income inequality in order to ensure that the benefits of these reforms are broadly shared.

The reform agenda will have to be pursued with a view to improve people's material living standards and promote inclusive growth. Reforms that boost productivity should translate into higher wages, while reforms to boost employment should facilitate the integration in the labour force of those systematically left out. Making reform happen may require overcoming deeply-rooted political economy obstacles, but analysis of major past reform experiences has helped identify the main ingredients for success (Box 1.2).

Even if at a slower pace, the reform agenda has nevertheless been pursued in Greece, Ireland, Portugal and Spain in 2013-14 (Figure 1.2). In France, reform responsiveness has been somewhat lower, close to the OECD average for 2013-14, and has not improved from the previous period: priority must be given to implement recently-legislated reforms and pursue announced plans aimed at restoring competitiveness and tackling unemployment, notably by promoting a jobs-rich recovery. Italy's reform efforts have been slowing down compared to the 2011-12 period and are therefore lagging behind compared with the other euro area periphery countries. However, the government has recently completed the initial steps in its comprehensive structural reform programme. Pursuing this programme with determination, along with effectively implementing earlier reforms, should help achieve stronger and more inclusive growth.

A slowdown in the pace of reforms is difficult to justify on the basis of macroeconomic constraints, implementation obstacles or social concerns in other countries. Most of the Nordic and the euro area core countries as well as Canada have been maintaining a relatively low pace of reforms, although to a varying extent. These countries were hit less hard by the crisis and did not experience financial market pressures to reform. Long-term views should prevail to push forward the reform agenda, not least to address future prospects of slowing GDP growth (see *OECD 50-Year Global Scenario*): this requires removing policy obstacles in several areas, including barriers to the broader inclusion of women in the labour market and to the accumulation of knowledge-based capital, a key source of innovation.

The reform slowdown observed for many advanced countries coincides with some reform acceleration for emerging-market countries, Mexico – as mentioned above – and the BRIICS (Figure 1.1). Levels of reform responsiveness in all BRIICS countries are higher than the OECD average and – except for Brazil – increasing (Figure 1.3). China and India have been the most responsive to *Going for Growth* recommendations, a reflection of ambitious reforms by these countries' governments. The pace of reforms is comparatively lower but has accelerated in Indonesia. In contrast with other emerging-market countries though, Chile and Turkey have decelerated the pace of reform efforts.

Box 1.2. **Making reform happen**

Going for Growth provides countries with recommendations about the structural reforms that they should consider implementing. However, the business of actually carrying out reform is complex, and involves a wide range of general political economy and more country-specific considerations. OECD analysis has examined the political economy of reform in 20 country-specific case studies of reform episodes in ten OECD countries as well as thematic treatments of the conditions that can make actual reform possible (see OECD, 2010b). This work builds on earlier OECD work, including a chapter in the 2007 edition of *Going for Growth* that examined the issue using quantitative empirical analysis.

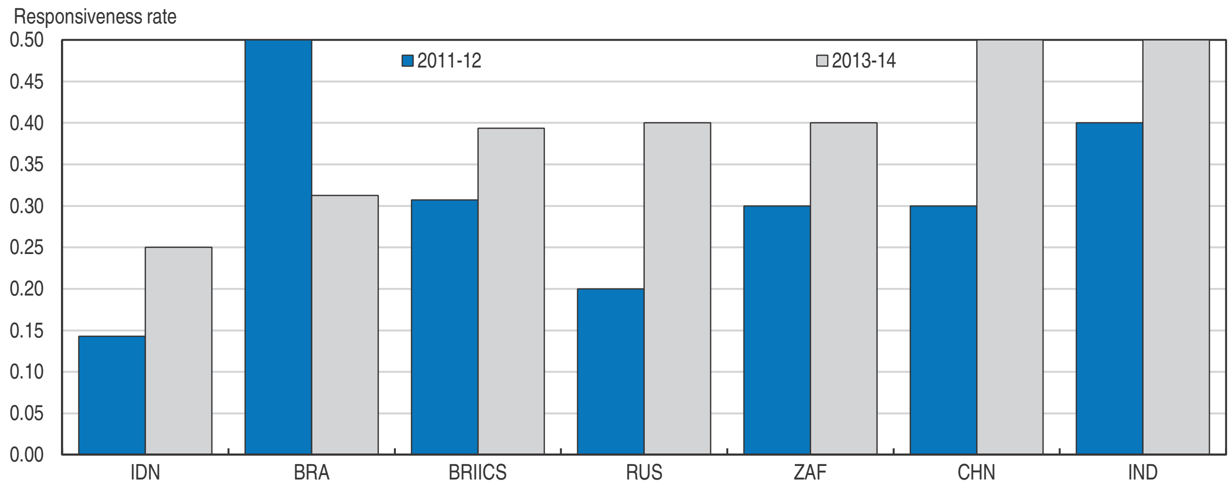
The review of OECD evidence suggests that a number of basic principles have often been successful:

- Governments should have an electoral mandate for reform. Reform "by stealth" has severe limits, and major reforms for which governments have not previously sought public approval tend to succeed only when they generate visible benefits very rapidly, which major structural reforms generally do not. While crises can create opportunities for reform surprises, sustainability is essential for real impact.
- Effective communication by governments is important. Major reforms have usually been accompanied by consistent co-ordinated efforts to persuade voters and stakeholders of the need for reform and, in particular, to communicate the costs of not reforming. Where, as is often the case, the costs of the *status quo* are opportunity costs, they tend to be politically "invisible", and the challenge is all the greater.
- Policy design should be underpinned by solid research and analysis. An evidence-based and analytically sound case for reform serves both to improve the quality of policy and to enhance prospects for reform adoption. Research presented by an authoritative, non-partisan institution that commands trust across the political spectrum appears to have a far greater impact.
- Successful structural reforms take time to implement. The more successful reforms in the case studies generally took over two years to prepare and adopt – and this does not include the preparation work done in the many reform episodes in which problems and proposals had been debated and studied for years before the authorities set to work framing specific reforms.
- Government cohesion is important. If the government undertaking a reform initiative is not united around the policy, it will send out mixed messages, and opponents will exploit its divisions; defeat is usually the result. The case studies suggest that cohesion matters more than such factors as the strength or unity of opposition parties or the government's parliamentary strength.
- Government leadership is essential. Reform progress may sometimes be facilitated by intensive discussions involving the government and the social partners (i.e. unions and business groups) in a formalised process. However, firmness of purpose on the part of the government also seems to be a critical element of success in such situations, though this is unlikely to succeed unless the government is in a position to reward co-operation by the social partners or can make a credible threat to proceed unilaterally if a concerted approach fails.
- The condition of the policy regime to be reformed matters. Successful reforms of established policy regimes often appear to have been preceded by the "erosion" of the *status quo* through smaller piece-meal reforms or reform attempts; where the existing arrangements are well institutionalised and popular, there appears to be no danger of imminent breakdown, reform is far more difficult.
- Successful reform requires persistence. A further important implication of the finding concerning reform ripeness is that blocked, reversed or very limited early reforms need not be seen as failures: they may play a role illustrating the unsustainability of the *status quo* and setting the stage for a more successful attempt later on.

The OECD case studies provide evidence in support of some of the major findings identified by earlier econometric work, particularly with respect to the facilitating effect of crises and sound public finances (Duval, 2008). These findings seem to be confirmed in practice by the pace of reform responsiveness to *Going for Growth* priorities: the immediate post-crisis context and associated financial market pressure, in particular the surge of sovereign risk premia for euro area periphery countries, have catalysed reforms. The easing of such tensions may reduce the pressure while the need to pursue fiscal consolidation may constrain the capacity to reform.

Figure 1.3. **The increase in the pace of reforms was widespread among BRIICS countries**

Responsiveness to *Going for Growth* recommendations across BRIICS countries, 2011-14



Note: See Box 1.1 for the definition of the responsiveness rate.

StatLink http://dx.doi.org/10.1787/888933177315

Reform acceleration since 2011 in emerging-market countries may have been catalysed by a growing awareness of the bottlenecks and constraints to potential output growth. This may have been spurred also by concerns associated with recent macroeconomic developments which revealed their vulnerability to commodity prices and capital flow fluctuations.

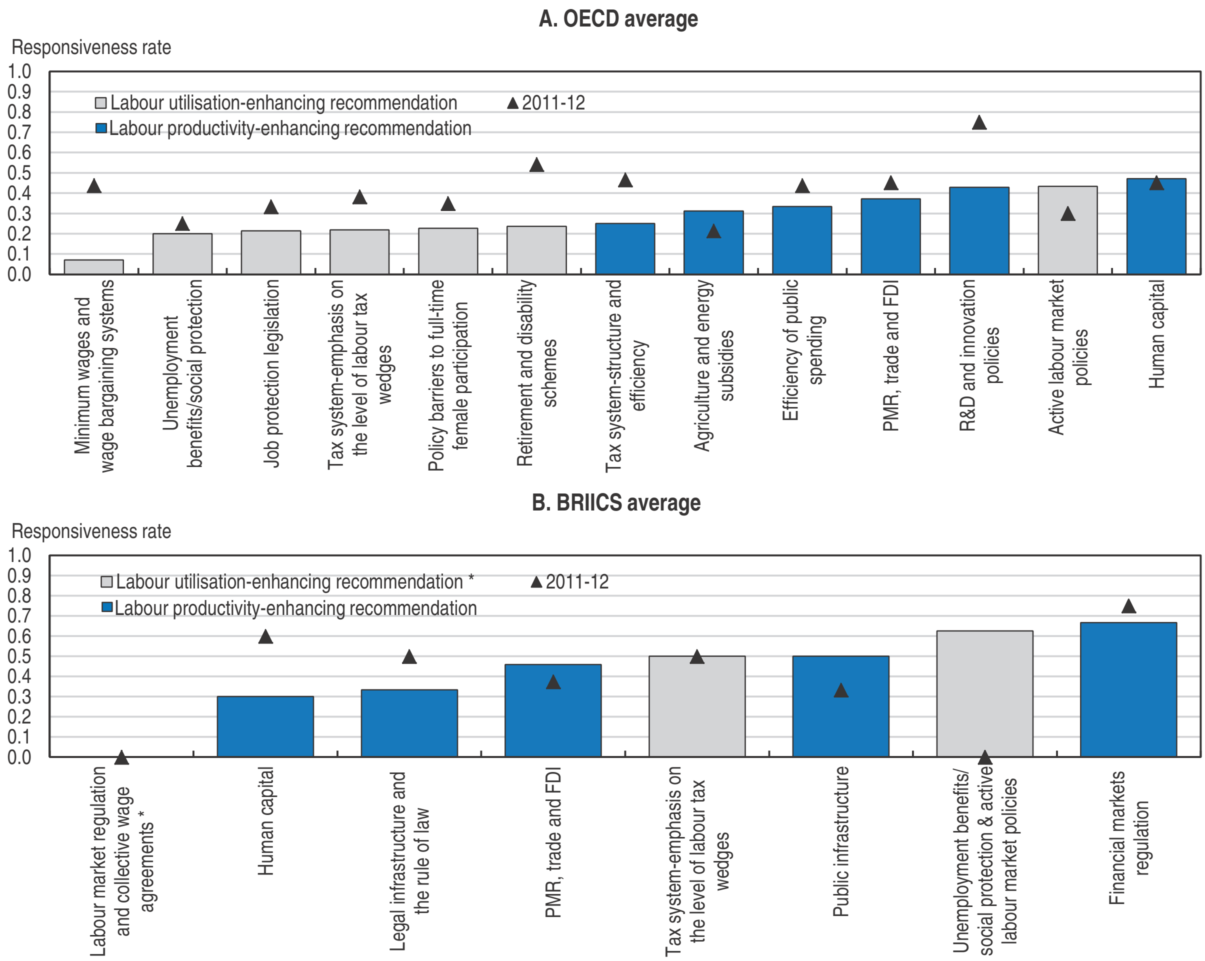
Reform progress across policy areas

Among labour productivity-enhancing areas, OECD countries have been most active at reforming education and innovation policies (Figure 1.4). This is a welcome step, since long-term growth will increasingly depend on multifactor productivity, hence on the accumulation of skills and knowledge-based capital.[14] In many countries such as Estonia, the Slovak Republic and the United Kingdom, priority has been given to improving the school-to-job transition and reducing the shares of young persons who are not in employment, education or training (so-called "NEET"). This has been addressed by expanding vocational education (including workplace training) to raise employability and enhance the alignment between skills and labour market needs. In the area of innovation, priority has been given to increasing the cost-effectiveness of public spending on R&D and therefore encouraging innovation by the private sector. Associated reforms, for instance as pursued in the Czech Republic, have focused on enhancing the efficiency of R&D tax credits and strengthening the co-operation between firms and higher education institutions.

Among policy areas to enhance labour utilisation, OECD countries have given priority to ALMPs. High responsiveness in the area of ALMPs reflects the need to address the sharp increase in unemployment following the crisis and in particular the share of long-term unemployed. The labour market deterioration has spurred policy efforts to develop better-designed and more cost-effective counselling and training services helping the unemployed to look for vacancies matching their skills, and if needed, to requalify. ALMPs were relatively under-developed in some of the countries that experienced the sharpest increases in long-term unemployment, such as Greece, Spain and the United States. In these countries, priority has been given to the progressive development of counselling and

Figure 1.4. **Reform intensity fell most in the areas of innovation, pension and wage-setting policies**

Responsiveness to *Going for Growth* recommendations across policy areas, 2013-14



Note: See Box 1.1 for the definition of the responsiveness rate.

StatLink http://dx.doi.org/10.1787/888933177323

training services. The focus has been on improving targeting, notably through systematic use of profiling by public employment services (PES) and cost-effectiveness, including via a careful involvement of private providers in delivering job-search assistance.[15]

Progress has also been achieved in the area of retirement and disability schemes, although the frequency of reforms declined sharply compared with the previous peak period (Figure 1.4). Among reformist countries, Austria took significant action to close remaining routes to early retirement; access to disability pension was replaced by medical and job-related rehabilitation aimed at encouraging labour supply and employability among older workers. High responsiveness in the area of disability also partly reflects some labour market and social consequences of the crisis, which led some discouraged job seekers to drop out of the labour force and flow into disability. In this context, countries such as Denmark have focused on rehabilitation measures with a view to better integrating health and employment services.

Wage bargaining reforms and, more generally, reforms to increase wage flexibility and responsiveness to economic conditions, have been rare in the last two years across the OECD. This stands in contrast with the high reform responsiveness recorded in 2011 and 2012. Indeed, the current slowdown can be explained by the introduction of major reforms in these areas in the post-crisis context, especially in Greece, Portugal and Spain (OECD, 2013a). These countries should now ensure full implementation of legislated changes, and, going forward, pursue reform efforts.

Reform intensity has also been low in the area of unemployment benefit systems (UB), as it was in the previous period. Considering the weakness of the labour market recovery after the crisis in a number of countries, governments have put priority on protecting the incomes of the unemployed in a context where job opportunities remain low. Indeed, the only OECD countries taking significant action in this area are to be found among those which were recommended to increase the coverage or generosity of unemployment benefits (and social protection more broadly). Reforms along this line have been implemented for instance in Japan and Korea. By contrast, recommendations to taper UB by duration or to eliminate the age bias (favouring older jobseekers) in UB generosity have been rarely followed-up. As economic activity and labour demand pick up, more emphasis should be put on promoting job search and the return to work. In this respect, some countries need to tighten the conditions to continue receiving benefits as the unemployment spell gets longer.[16]

Tax policy is another area where the pace of reforms has slowed. Indeed, in the 2011-12 period, many OECD countries increased consumption taxes, while in some cases lowering labour taxes, in line with *Going for Growth* recommendations (OECD, 2013a). Such reforms have been welcome steps to make the tax system more growth-friendly while meeting fiscal consolidation objectives. Clearly, there are limits to increases in consumption taxes, not least due to their potential detrimental short-term effects on vulnerable households.[17] Still, the majority of countries for which tax policy is considered a growth priority exhibit considerable room for enhancing the efficiency of their systems. Furthermore, reforms in this area, which are desirable from an economic efficiency standpoint, can have positive side-effects on the income distribution if appropriately designed. Such is the case of measures to close tax loopholes that distort resource allocation and benefit higher-income households the most, for instance mortgage interest rate deductibility.

Reform patterns should be interpreted with caution in the case of the BRIICS, because the corresponding indicators rely on a very limited number of countries.[18] Bearing this caveat in mind, among labour productivity-enhancing priorities, BRIICS countries have been most active in financial market and banking reforms to encourage efficiency in capital allocation. India has been taking steps to ease barriers to domestic and foreign competition in the banking sector and China to reduce government control of interest rate setting. Among the less frequently recommended labour utilisation-enhancing priorities, progress has been achieved in the area of active labour market policies and social protection, in contrast with the previous period. In particular, South Africa is signalling reform efforts to tackle its extremely high level of youth unemployment by establishing public employment services and wage subsidies targeted at young jobseekers. No progress has been achieved in job protection and labour market regulations. The absence of significant reforms in these areas was also observed in the previous period, perhaps an indication of the fierce political-economy obstacles. Yet easing stringent labour market regulations in emerging-market countries would raise formal employment. Reforms in this area would also encourage efficiency in labour allocation and thereby productivity growth.

Reform priorities for OECD and partner countries

This section summarises the 2015 priorities for OECD and partner countries. The identification of such priorities is based on a combination of quantitative analysis, i.e. the mapping of performance and policy weaknesses, and country-specific expertise. The methodology is described in Box 1.3.[19] Associated country-specific recommendations are detailed in separate country notes (Chapter 5). The section begins with a brief overview of how countries rank in terms of GDP per capita and to what extent the differences in living standards can be attributed to gaps in productivity or labour utilisation. This is followed by a brief snapshot of changes in policy priorities from 2013 to 2015. The final section discusses in more details the policy priorities to enhance labour utilisation, and then those aimed at boosting labour productivity.

Box 1.3. **The selection of policy priorities**

The *Going for Growth* methodology identifies policy recommendations based on their ability to improve long-term material living standards through higher productivity and labour utilisation. The reference performance measure in this regard is gross domestic product (GDP) per capita, given its contemporaneous availability and relatively broad coverage and despite its various drawbacks.

Five policy priorities are identified for each country. In each case, at least three of the priorities are selected on the basis of quantitative performance and policy indicators, in areas where performance and policy weaknesses coincide. The remaining two priorities are identified using a combination of indicators and country-specific expertise. This is to ensure that important policy priorities in areas that are not covered by indicators can be included. There is a greater reliance on country expertise for non-member countries, because the set of available performance and policy indicators is more limited in their case.

Priorities aimed at improving labour productivity include: enhancing equity and efficiency of education systems; encouraging innovation, the diffusion of technology and of new ideas; improving the competitive environment and resource allocation by e.g. easing entry restrictions for domestic and foreign firms, controls over business operations and cutting agricultural support; enhancing the efficiency of the tax system and of public expenditure; and addressing physical and legal infrastructure bottlenecks. Priorities aimed at improving labour utilisation include: reforming tax and benefits systems to make work pay, especially for population groups with weak labour market attachment, such as women, the low-skilled and older workers; improving the design and integration of social benefits and ALMPs; reviewing job protection legislation to enhance labour reallocation and tackle labour market duality and encouraging wage flexibility by reforms in minimum wage or bargaining systems.

The dual classification of reform priorities based on their potential to raise either labour utilisation or labour productivity allows a simple and transparent assessment. Many structural reforms are beneficial on both grounds (for instance, job protection and product market reforms), but some of them may have opposite effects on the two dimensions. In particular, boosting overall labour utilisation by encouraging higher participation of working hours by groups with relatively low productive potential (such as the low skilled or disability benefits recipients) may reduce overall labour productivity.

The model for priority selection model does not formally account for policy interactions, such as complementarities between reforms. However, on the basis of the model output and country-specific expertise, the set of country-specific priorities are tailored and bundled with a view to embrace a coherent and consistent reform agenda.

The selection of country-specific policy priorities cannot account for reform spillovers and co-ordination across countries, which is likely to become more and more important in the future, for example in the area of innovation and taxation. This topic is at the core of the *OECD 50-Year Global Scenario* (OECD, 2014a).

Understanding differences in GDP per capita across countries

Gaps in GDP per capita *vis-à-vis* most advanced countries can be decomposed into gaps in labour productivity and labour utilisation (Figure 1.5). This simple accounting exercise underscores the major contribution of labour productivity (relative to labour utilisation) to gaps in GDP per capita (Figure 1.5, Panel B). In fact, for the countries with lowest GDP per capita levels, the difference *vis-à-vis* the average of the upper half of OECD countries is largely accounted for by labour productivity. These countries are in many ways quite heterogeneous, but most of them face the common challenges of tackling widespread informality and addressing bottlenecks in physical and legal infrastructure.

The relative contribution of labour productivity and labour utilisation to the GDP per capita shortfall *vis-à-vis* the average of the upper half of OECD countries is more mixed for higher-income countries. Some of them can be grouped together and this assessment informs the selection of *Going for Growth* policy priorities. For example:

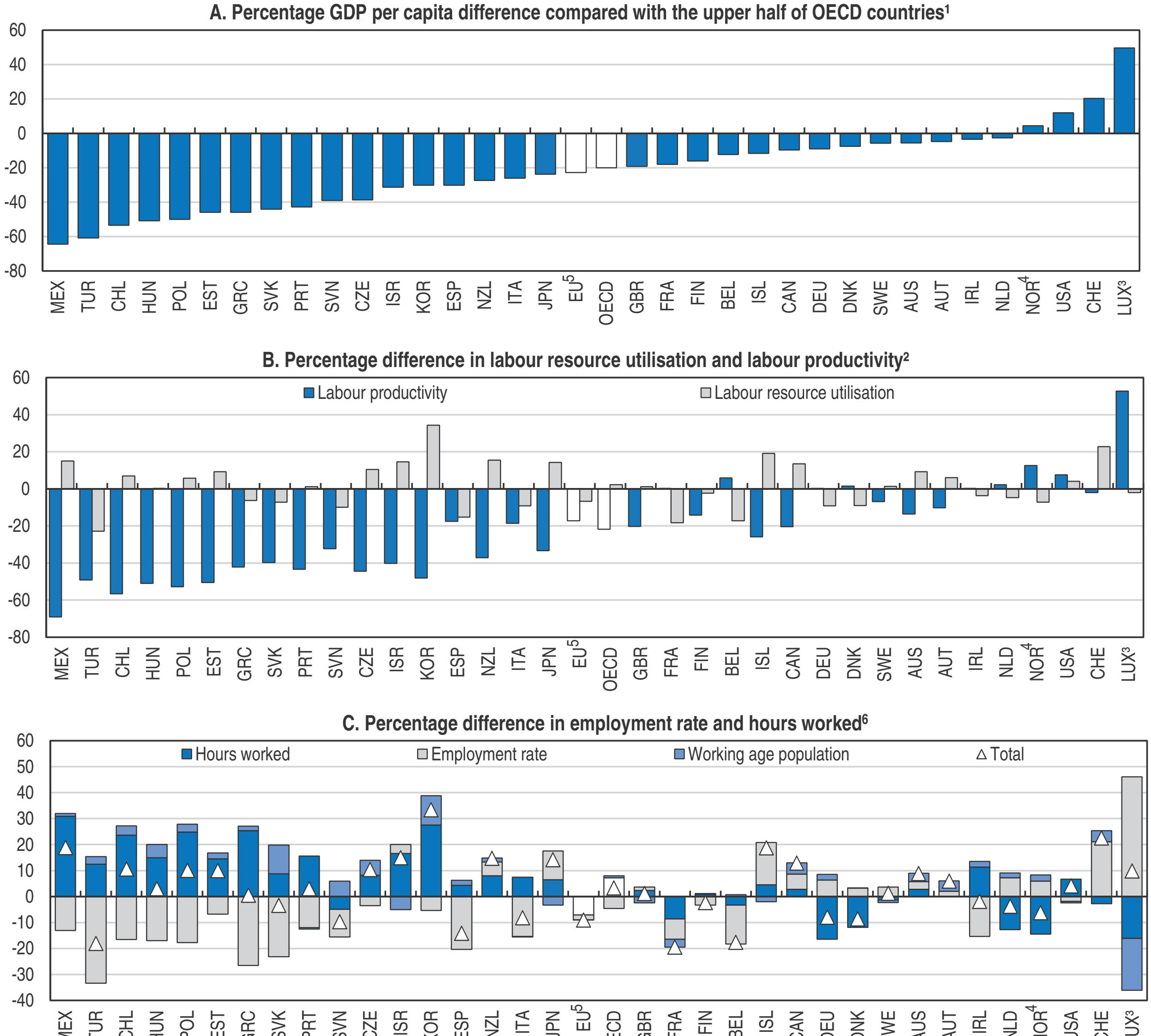
- Many Northern European countries (e.g. Belgium, Denmark, France, Germany and the Netherlands) feature low labour utilisation and high productivity. Low labour utilisation is mainly driven in the majority of these countries by low hours worked among the employed, although Belgium and France are characterised by both low employment and low hours worked (see Figure 1.5, Panel C). Low hours worked often reflect policy impediments to full time work, especially for second earners and lone parents – in general women. These impediments are often embedded in tax and benefit systems (e.g. some features associated with joint income taxation or with the withdrawal benefits as hours worked increase).
- Southern European countries generally feature both low labour productivity and low labour utilisation. Such is the case for Greece, Italy and Spain; Portugal also exhibits a large productivity gap but labour utilisation is at par with the upper half of the OECD (Figure 1.5, Panel C). By contrast with the previous group, all these countries are characterised by low employment but high hours worked among the employed. In most cases, some population groups – in general the low-skilled and youth – are largely excluded from the labour market, a diagnosis that applies to France as well. This can be attributed to policy impediments such as, for example, highly unbalanced employment protection legislation that creates labour market duality: that is, a divide between workers under contracts with strong job protection and those under contracts with little protection and little scope for on-the-job training.
- Countries outside Europe (e.g. Australia, Canada, Japan, Korea and New Zealand) feature high labour utilisation and low productivity. The drivers of low labour productivity are more difficult to identify and measure than those of low labour utilisation. In the case of Japan and Korea, relatively weak performance in services industries seems to constrain productivity growth; in the case of Canada and New Zealand, productivity gains appears to be held back by low returns to investment in knowledge-based capital and tertiary education. This can again be attributed to policy impediments, such as ineffective government support to innovation or barriers to the entry of firms and to the efficient allocation of capital and labour resources across firms and industries.

The fact that productivity is the main driver of growth in the long run should by no means reduce the relevance of labour utilisation-enhancing reforms, in particular to encourage the participation of underrepresented groups in the labour force. In addition to

Figure 1.5. **Large gaps in GDP per capita are mostly due to productivity shortfalls**

The sources of real income differences

A. OECD countries, 2013



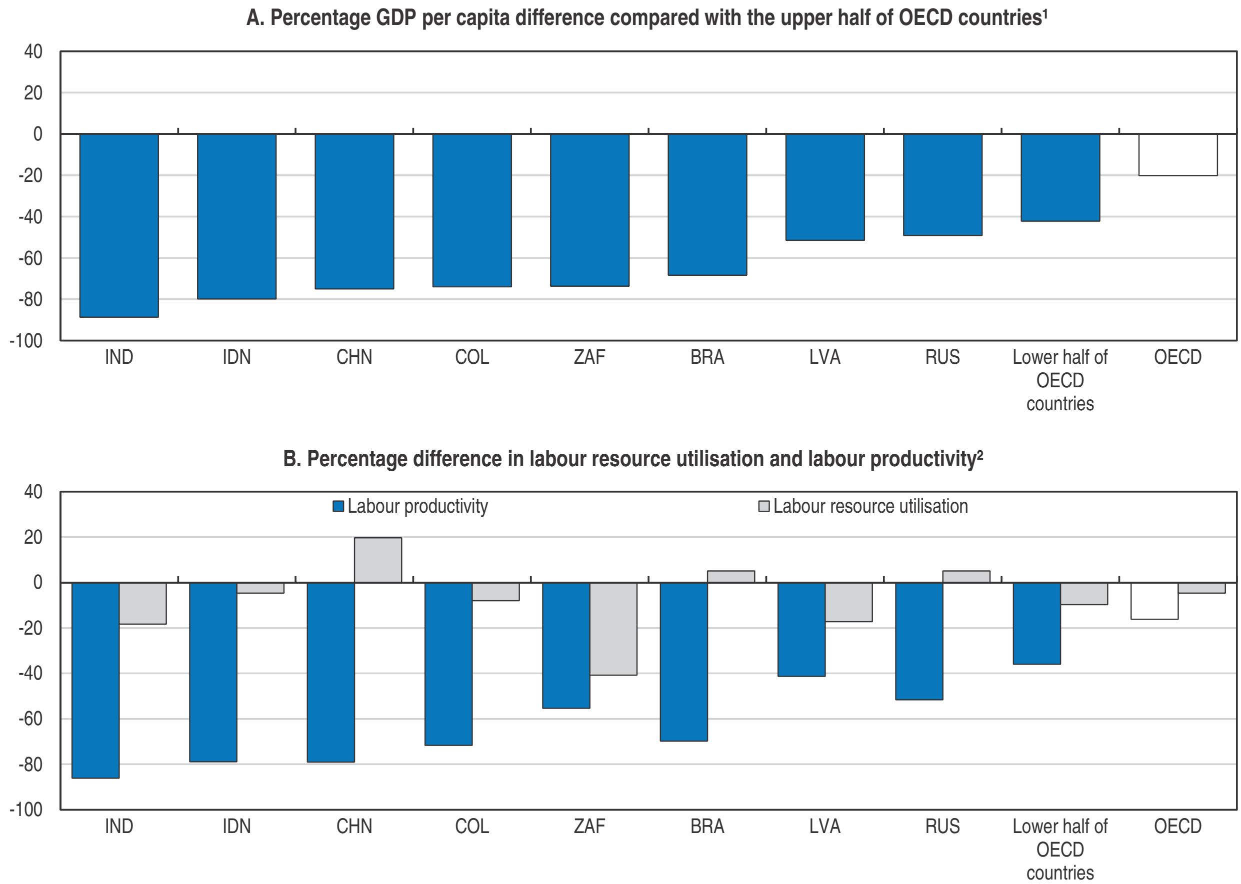
1. Compared to the simple average of the 17 OECD countries with highest GDP per capita in 2013 based on 2013 purchasing power parities (PPPs). The sum of the percentage difference in labour resource utilisation and labour productivity do not add up exactly to the GDP per capita difference since the decomposition is multiplicative.
2. Labour productivity is measured as GDP per hour worked. Labour resource utilisation is measured as the total number of hours worked per capita.
3. In the case of Luxembourg, the population is augmented by the number of cross-border workers in order to take into account their contribution to GDP.
4. Data refer to GDP for mainland Norway which excludes petroleum production and shipping. While total GDP overestimates the sustainable income potential, mainland GDP slightly underestimates it since returns on the financial assets held by the petroleum fund abroad are not included.
5. Average of European Union countries in the OECD.
6. Employment rate is measured as total number of employed divided by working-age population. Hours worked are measured as total number of hours worked per employed. Working-age population is measured as working-age population divided by total population. The total of the three components is not equal to labour resource utilisation as presented in Panel B since the decomposition is multiplicative.

Source: OECD, *National Accounts, Productivity, Employment Outlook* and *Economic Outlook 96 Databases*.

Figure 1.5. **Large gaps in GDP per capita are mostly due to productivity shortfalls** *(cont.)*

The sources of real income differences

B. Non-OECD countries, 2013



1. Compared to the simple average of the 17 OECD countries with highest GDP per capita in 2013 based on 2013 purchasing power parities (PPPs). The sum of the percentage difference in labour resource utilisation and labour productivity do not add up exactly to the GDP per capita difference since the decomposition is multiplicative.
2. Labour productivity is measured as GDP per employee. Labour resource utilisation is measured as employment as a share of population.

Source: OECD, *National Accounts Database*; World Bank, *World Development Indicators (WDI) Database*; ILO (International Labour Organization), *Key Indicators of the Labour Market (KILM) Database* for employment data on Brazil, Colombia, Indonesia and Latvia; Statistics South Africa for employment data on South Africa; India National Sample Survey (various years), annual population estimates from the Registrar General and OECD estimates for employment data on India; China Ministry of Human Resources and Social Security for employment data on China.

StatLink http://dx.doi.org/10.1787/888933177339

help closing gaps and bring higher levels of GDP per capita, progress in this area contributes to achieve other objectives, such as reducing income inequalities and promoting a more inclusive society.

A snapshot of policy priorities for reforms

Overall, the balance of policy recommendations in *Going for Growth* by subject area has remained quite stable for OECD countries since 2013 (Table 1.1).[20] The vast majority of 2013 country-specific priorities are retained. Over the last two years, performance challenges have not changed much and policy reforms to address those challenges have been moderate, as discussed before. In many reform areas, progress remains piecemeal and much more is needed. Some reforms have been taking place only gradually, with incremental policy changes introduced in sequential rounds. This is typically the case for product market

Table 1.1. **Share of priorities by policy area**

Going for Growth edition	2015				2013			
	OECD	Upper-income OECD[1]	Lower-income OECD[2]	Non-OECD[3]	OECD	Upper-income OECD[1]	Lower-income OECD[2]	Non-OECD[3]
Labour utilisation								
Tax system with emphasis on the level of labour tax wedges	7	8	6	3	7	8	6	0
Social benefits and active labour market policies	17	20	14	8	17	19	15	7
UB/social protection and ALMPs	10	11	11	8	9	8	11	7
Retirement and disability schemes	6	9	4	0	7	11	5	0
Retirement systems	4	5	4	0	4	5	4	0
Disability and sickness schemes	2	5	0	0	3	6	1	0
Policy barriers to full-time female labour force participation	5	5	5	0	5	5	5	0
Labour market regulation and collective wage agreements	9	6	11	10	10	6	13	10
Job protection legislation	6	5	7	5	7	5	9	7
Minimum wages and wage bargaining systems	2	1	2	5	2	1	4	3
Housing policies/barriers to geographical labour mobility	2	4	1	0	2	4	1	0
Total labour utilisation	**39**	**42**	**36**	**20**	**40**	**41**	**40**	**17**
Labour productivity								
Human capital	16	13	20	15	16	13	20	17
R&D and innovation policies	6	4	8	8	4	4	5	3
PMR, trade and FDI	22	18	24	23	21	18	22	23
Agriculture and energy subsidies	4	6	2	3	4	6	1	3
Tax system-structure and efficiency	5	7	4	5	5	7	4	3
Efficiency of public spending	4	6	2	0	5	6	5	3
General efficiency	2	4	1	0	3	4	4	0
Efficiency of the healthcare sector	2	2	1	0	2	2	1	3
Public infrastructure	2	2	2	13	2	2	1	10
Legal infrastructure and the rule of law	1	0	1	5	1	0	2	7
Financial markets regulation	0	0	0	8	1	1	0	10
Planning/zoning/housing/policies	1	2	0	3	1	2	0	3
Total productivity	**61**	**58**	**64**	**80**	**60**	**59**	**60**	**83**
Total number of priorities[4]	*175*	*85*	*85*	*40*	*175*	*85*	*85*	*30*

1. Upper-income OECD includes countries with per capita GDP levels above the median.
2. Lower-income OECD includes countries with per capita GDP levels below the median.
3. Non-OECD refers to BRIICS countries plus Colombia and Latvia for 2015 and BRIICS countries for 2013
4. The sum of upper-income and lower-income OECD countries' priorities for doesn't add up to 175 because the EU as a whole is not counted among any of these two groups.

reforms, because countries need to address several policy distortions (such as broad competition versus industry-specific issues – eventually in multiple sectors) which are difficult to tackle simultaneously, not least reflecting political economy obstacles.

As a result, in the vast majority of cases, even "significant" action on policy recommendations (as defined and reflected in the reform responsiveness rate indicator presented above) has not implied the removal of the corresponding priority. While broad priority areas are retained for most countries, the more detailed mix and nature of policy recommendations underpinning each priority is reassessed and, when relevant, refocused. Such reassessment is established on the basis of shifting contexts and actions taken in the past two years. A refocusing of priorities is most frequent in the area of labour utilisation, because associated reforms may produce their effects relatively quickly, underscoring frequent revisions. This is typically the case of active labour market policies and unemployment benefit priorities, for which the frequency of refocusing is the highest (25% of the priorities in these areas have been refocused). In most cases as discussed in the previous section, efforts have been pursued in reforming public employment services and training for the unemployed while less has been achieved in reforming unemployment benefits. Some refocusing of priorities is also relatively frequent in the area of product markets (14%), reflecting in this case the piecemeal nature of the reforms. By contrast, education priorities have been rarely refocused (4%), because reforms in this area require sustained policy efforts to produce their effects.

For non-OECD countries,[21] 80% of policy priorities are aimed at improving productivity, reflecting these countries' relative weakness in this area (Figure 1.5, Panel B). There is a strong focus on product market regulation – which is often much more stringent than in upper-income OECD countries – and education systems, where quality and equity are relatively low. Addressing infrastructure bottlenecks and strengthening institutions to fight corruption are also recurrent recommendations for durably boosting productivity in these countries. Many priorities are intended to address labour informality. These include increasing the coverage of social protection systems, containing labour costs and relaxing overly strict job protection for workers in formal jobs. The distribution of priorities has remained remarkably stable for the BRIICS in spite of the recent acceleration in the pace of reforms. This is not surprising given the prevalence of productivity-enhancing policy reforms which take more time to produce their effects. The magnitude of performance and policy gaps with respect to OECD countries also implies that comparatively stronger action, probably staggered over an extended period of time, is needed for a policy priority to be fully addressed.

The prime purpose of *Going for Growth* is to help governments identify the set of structural reforms that will best address the medium-term growth challenges they face. The extent to which the selected priorities features highly or not in the policy agenda varies across countries. Nevertheless, a large portion of *Going for Growth* priorities are the object of reform commitments made by G20 country governments to meet the additional 2% growth target set in the context of the Brisbane Action Plan in November 2014 (see Box 1.4).

Policies to enhance labour utilisation

The labour market recovery and short-term challenges[22]

The jobs situation has started to improve, but there is still a long way to go. For the OECD as a whole, the jobs recovery has only just begun: the OECD employment rate is currently 1.8 percentage points below its level at the start of the global financial crisis down from the 2.2 percentage points gap reached at the trough of the jobs recession. However, the picture differs significantly across countries. In most euro area countries as well as in Denmark, the employment rate is close to its lowest level since the start of the crisis and the jobs recovery has in many cases yet to begin. The employment rate is currently higher than at the start of the crisis in countries where the decline in employment following the recession has been small (e.g. Austria and Germany). Employment rates have recovered modestly but tend to remain close to their cyclical trough in the remainder of OECD countries, including Japan and the United States. Labour markets have been relatively resilient in emerging-market countries, reflecting the milder effect of the global crisis. Still, the recent growth slowdown in some of them may not bode well for short-term labour market developments, for example

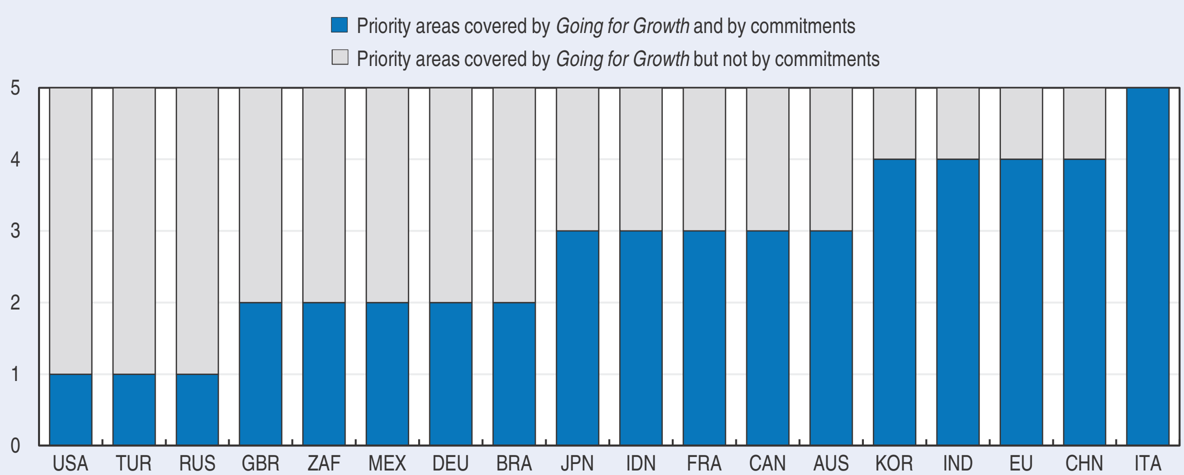
Box 1.4. *Going for Growth* priorities and the G20 Brisbane Action Plan commitment to raise GDP by 2% by 2018

The G20 made a commitment in the November 2014 Brisbane Action Plan to implement new policy measures to lift, by 2018, its collective GDP by more than 2% above the trajectory projected in the October 2013 IMF *World Economic Outlook*. All G20 countries submitted comprehensive national growth strategies, including new structural reform commitments in the areas of product and labour market, policies, as well as investment and trade to achieve the 2% target.

The OECD and IMF provided a joint objective assessment of the impact of new policy commitments. This was based on the set of structural policy indicators and underlying empirical analysis linking specific policy and performance areas used in *Going for Growth*. The OECD and IMF G20 concluded that – if fully implemented – the proposed reform measures can raise overall G20 GDP by 2% by 2018 (OECD and IMF, 2014). This would add more than USD 2 trillion of GDP to the world economy, roughly equivalent to the size of the Australian economy.

How far did G20 countries commit to take action in the priority areas identified by *Going for Growth?* A simple measure is the degree of overlap between the OECD priorities and G20 countries' commitments (see figure below). In around half of the G20 countries and in the European Union, at least three of the five *Going for Growth* priorities are the object of commitments in the comprehensive growth strategies, suggesting that countries are taking action in many of the priority areas.

The degree of overlap between *Going for Growth* priorities and G20 commitments



StatLink http://dx.doi.org/10.1787/888933177345

At the same time, this measure would suggest that some countries are not taking action in several priority areas identified by *Going for Growth*. This is partly due to the 5-year horizon of the G20 exercise, which means that long-term *Going for Growth* policy priorities, such as reforms of basic education that act over an horizon well beyond five years, are not reflected in G20 commitments. As a result, less than one-third of the *Going for Growth* priorities in the area of skills development and education overlap. In terms of the other major policy areas in *Going for Growth*, the degree of overlap is much higher in the case of product market regulations than labour market policies. G20 countries have clearly made substantial commitments in the Brisbane Action Plan, but it is clear that there remains considerable scope for more ambitious policies in some priority areas.

if it spurs an increase in informality. Fostering job creation in the formal sector can help maintain growth rates that are sufficiently robust to continue narrowing the income gaps *vis-à-vis* advanced countries.

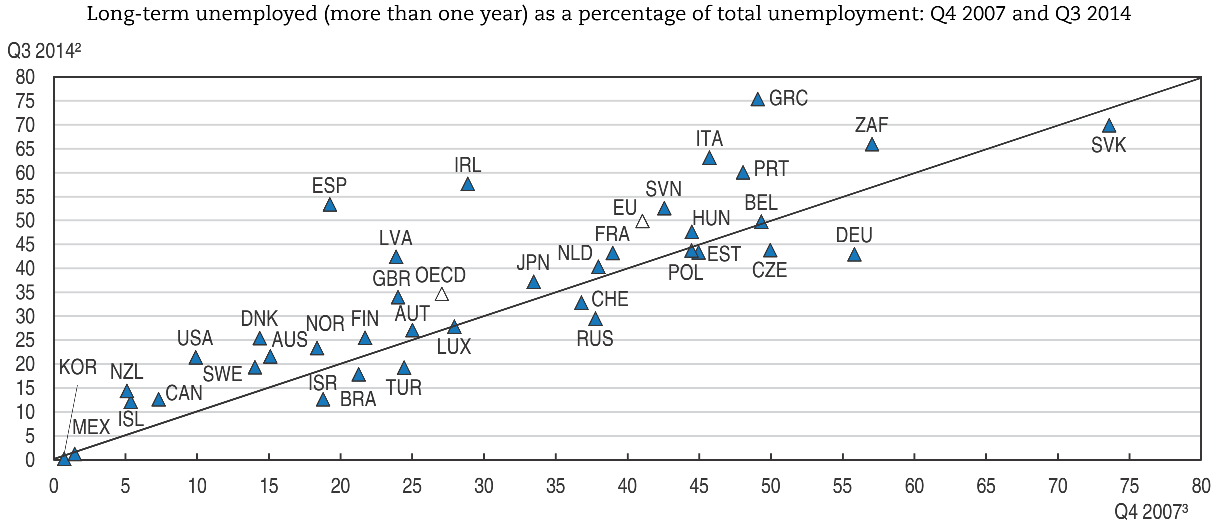
The OECD-wide unemployment rate has started to fall, according to the most recent data. In particular, unemployment rates in countries most severely affected by the euro area crisis as well as in the United States are now considerably below their cyclical peaks. The more vigorous improvement in unemployment relative to employment reflects the decline in labour force participation observed in a number of OECD countries, such as Denmark, Ireland, Portugal and the United States. The extent to which this decline reflects cyclical as opposed to secular factors already at work before the crisis (such as the gradual rise in school enrolment) has been intensively analysed and debated in the case of the United States. Attempts to provide a quantified assessment are clouded by the considerable uncertainty that remains regarding the amount of labour market slack.

Long-term unemployment has increased substantially in countries that were initially hard hit by the financial crisis, including in those where the pre-crisis incidence was relatively low before, such as Latvia, Spain and the United States (Figure 1.6). In others, it remains persistently high though closer to the pre-crisis levels (the Slovak Republic and South Africa) or even below (Germany). Tackling either the sharp rise in or the high level of long-term unemployment (or both as in the case of Greece, Ireland, Italy and Portugal) is therefore a pressing and widespread challenge across the OECD.

Recent analysis indicates that some of the cyclical increase in unemployment has become structural in a number of OECD countries. Matching efficiency, i.e. the ease with which jobseekers find jobs and job vacancies are filled, may have deteriorated. Tentative evidence suggests that this may be the case in New Zealand and the United States, where the incidence of long-term unemployed has increased significantly since the crisis; however, this is difficult to establish empirically and results need to be taken with caution.

Figure 1.6. **The incidence of long-term unemployment remains high**[1]

Long-term unemployed (more than one year) as a percentage of total unemployment: Q4 2007 and Q3 2014



1. For OECD countries, data are smoothed using three-quarter moving averages. OECD is a weighted average excluding Chile.
2. Data refer to 2013 for Israel, Q1 2014 for the Russian Federation.
3. Data refer to Q1 2008 for South Africa.

Source: OECD calculations based on quarterly national Labour Force Surveys (cut-off date: 13 January 2015).

StatLink http://dx.doi.org/10.1787/888933177357

Reduced matching efficiency may reflect the growing role of mismatch in terms of skills, industries and regions. It can, however, also reflect the possibility that some of the long-term unemployed have become discouraged and are thus reducing their search intensity; and also, that they are being discriminated against by employers.

Going for Growth reform recommendations can mitigate the potential long-term labour market effects of the crisis. Notably, a well-integrated system of passive (i.e. unemployment benefits) and active (i.e. job search support, counselling and training programmes) labour market policies can facilitate the return to work and improve the matching between workers and jobs.

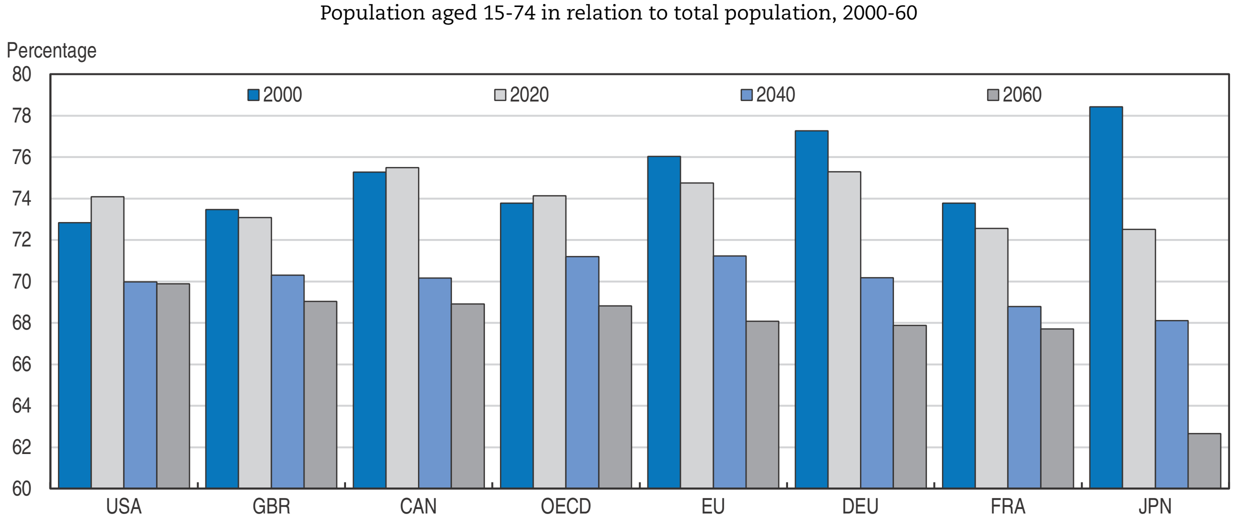
Demographic developments and long-term challenges

The demographic dividend in the form of rising participation rates, fewer dependent children and low shares of elderly citizens is bound to gradually disappear (Figure 1.7).[23] The share of population that is of working age has been falling in Japan since the late 1990s and is close to its peak in many other OECD countries. It is no longer increasing in China, contrasting with the expected continued rise in India, at least until 2050. Between 2010 and 2060, the OECD's population is expected to increase by 17%, but the working-age population (aged 15-74 years) may fall by 7%, according to recent projections developed under the *OECD 50-Year Global Scenario* (OECD, 2014a). Even though further pension and labour market reforms may increase labour force participation rates in the OECD by a few percentage points, labour's contribution to growth in GDP per capita is likely to be near zero throughout the period in the average OECD country.

The demographic challenge can be partly addressed by removing policy impediments to labour force participation in order to better support individual labour supply choices. Priority should be given to achieving stronger inclusion in the labour force by encouraging the participation of under-represented groups such as women and elderly workers. Reforms in this area would raise growth and make it more inclusive. Associated *Going for Growth* reform recommendations cover different areas such as tax and benefit systems but also childcare provisions.

Figure 1.7. **The demographic evolution creates further growth policy challenges**

Population aged 15-74 in relation to total population, 2000-60



Source: OECD, *Economic Outlook 95 Long-term Database.*

StatLink http://dx.doi.org/10.1787/888933177367

Tax system – levels of labour tax wedges

High average and in particular marginal taxes on labour incomes tend to depress individuals' labour supply by discouraging full-time labour force participation. In addition, high labour tax wedges can reduce firms' labour demand by driving up the cost of labour (due to high employers' contribution or payroll taxes). As a result, high labour tax wedges are associated with lower employment and hours worked as well as higher unemployment. Such detrimental effects are stronger for workers facing foremost labour demand-side obstacles, generally youth and the low-skilled, and those facing supply-side obstacles, generally second earners and lone parents. Too high and ill-designed social security provisions and tax wedges are also major drivers of labour informality, reflecting both labour demand and supply-side obstacles.

Reducing labour taxes, including through cuts in social security contributions, is thus a priority for many advanced and emerging-market countries (Table 1.2). Sometimes financial disincentives to take up work reflect the combined effect of taxes and benefits rather than only that of labour taxes – often in higher-income countries where welfare states are comparatively more developed. In such cases, reforms should focus on improving the design and articulation between taxes and benefits or on the use of earned income tax credits (EITC) with a view to achieving income redistribution without undermining work incentives.[24]

The pace of reforms has been relatively weak in this area (Figure 1.4), a likely reflection of budgetary constraints. In order to avoid deterioration of budget positions, such recommendations are advocated as part of broader reforms to enhance the efficiency of tax systems (see detailed discussion in the productivity section below). These include measures such as: i) broadening the tax base, for instance by eliminating numerous tax exemptions; ii) combating tax evasion; iii) simplifying the tax code; and iv) shifting taxation towards less distortive sources of revenues, such as inheritance, immovable property, consumption and environmental tax bases, found to be less damaging to growth and welfare (Arnold et al., 2011).

Failure to reform in this area could be very costly at the current juncture. This is because high levels of labour taxation are often the counterpart of high expenditure on social protection, which are in large part financed through social contributions weighing mainly on earnings and labour costs (at least in a number of countries, such as France). As a result, in the current context of high public debts, enhancing the efficiency of both social expenditure and tax systems should figure high in the policy agenda. Because reforms aimed at lowering the cost of social protection while increasing the efficiency of the system are difficult to implement and may take time to produce their effects (as is the case with pension reforms), the cost of inaction could be very high.

Policy barriers to the full-time labour force participation of women

A high proportion of women are excluded from the labour market in a number of countries, while in others they are overrepresented among (involuntary) part-time workers (Figure 1.8). Recommendations are made to encourage female labour force participation or hours worked where those are particularly low and can be traced to ill-designed policies. This requires family-friendly policies and working conditions which enable fathers and mothers to balance their working hours and their family responsibilities and facilitate women's participation in employment. The majority of policy recommendations fall in

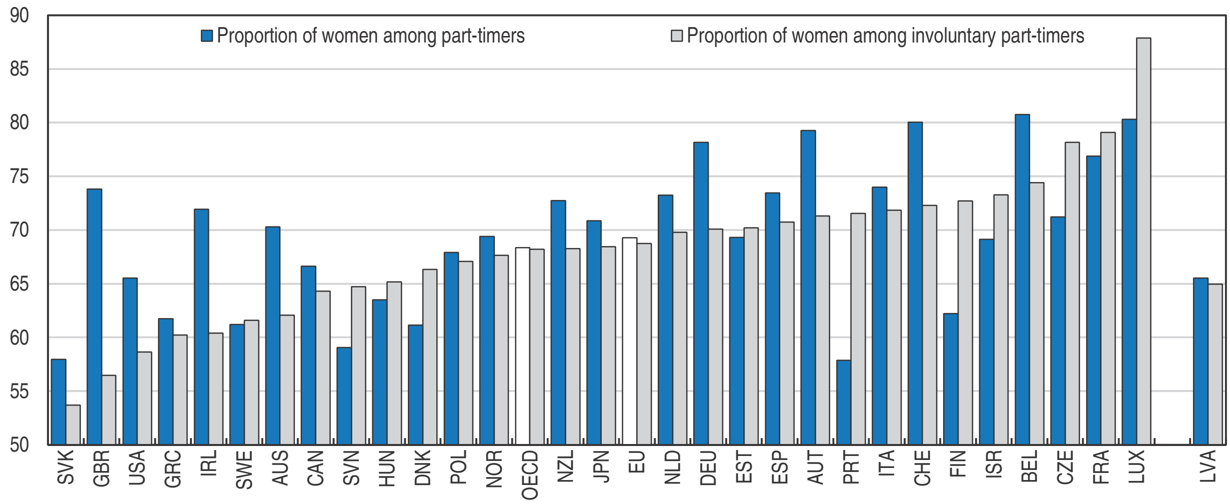
Table 1.2. **Labour taxation and policy barriers to full-time female participation**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Tax system – levels of labour tax wedges and their interaction with transfers and benefits																					
Reduce average/marginal labour tax wedges		✓	✓				✓	✓		✓	✓	✓						✓			
Reduce labour tax wedges by reducing social security contributions		✓									✓	✓		✓							
Reduce marginal labour tax wedges for high wage workers																					
Reduce labour tax wedges for low-wage workers		✓	✓			✓		✓				✓		✓							
Remove tax and benefit disincentives to low earners full-time participation/introduce or expand EITC			✓											✓		✓	✓				✓
Remove tax and benefit disincentives to full-time female/second earners/lone parents participation						✓						✓				✓			✓		
Policy barriers to full-time female participation – other than taxes and benefits																					
Expand access to quality childcare and early education/improve targeting	✓				✓	✓						✓				✓			✓	✓	
Reform parental leave policies						✓														✓	

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Tax system – levels of labour tax wedges and their interaction with transfers and benefits																						
Reduce average/marginal labour tax wedges					✓												✓			✓		
Reduce labour tax wedges by reducing social security contributions												✓					✓					
Reduce marginal labour tax wedges for high wage workers										✓												
Reduce labour tax wedges for low-wage workers		✓			✓							✓										
Remove tax and benefit disincentives to low earners full-time participation/introduce or expand EITC		✓						✓					✓							✓		
Remove tax and benefit disincentives to full-time female/second earners/lone parents participation		✓					✓				✓											
Policy barriers to full-time female participation – other than taxes and benefits																						
Expand access to quality childcare and early education/improve targeting			✓		✓		✓				✓	✓	✓	✓			✓					
Reform parental leave policies							✓															

Figure 1.8. **Part-time work is widespread among women**[1]

Percentage, 2013



1. Involuntary part-time workers are those working part-time either because they cannot find a full-time job or because they cannot work more hours in their current job. In most countries part-timers are those working less than 30 hours a week, except for Japan (less than 34 hours a week). 2012 data for Japan.

Source: OECD, *Labour Force Statistics Database*.

StatLink http://dx.doi.org/10.1787/888933177371

three main reform areas – with differential thrust reflecting country-specific context (Table 1.2): i) the level and design of taxes and benefits; for example fiscal disincentives to work for second earners such as tax allowances for non-working spouses (e.g. the Slovak Republic) and systems of joint taxation[25] (e.g. Germany); ii) high costs, weak targeting and therefore limited access to childcare (e.g. Ireland); and iii) ill-designed parental leave policies or low take-up of parental leave arising from e.g. lack of flexibility in working-time arrangements such as underdeveloped part-time work (e.g. Korea).[26]

Some reforms have taken place in this area (Figure 1.4). OECD Governments have focused on progressively expanding childcare facilities (OECD, 2014a), but efforts have been very piecemeal and access for children from disadvantaged households remains low, which calls for improved targeting. Removing remaining disincentives to full-time work, especially for second earners and lone parents, would allow for a better balance between work and family and a narrowing of gender-related inequalities. This would bring equity and welfare gains.

Social benefits and measures to facilitate the return to work

Unemployment benefits (UB), social protection and active labour market policies (ALMPs). The goal of UB, social protection and ALMPs is to provide adequate income support during jobless spells while encouraging the return to work with a view to efficiently matching workers and jobs. This implies associating counselling with training services. The main challenge consists in designing social protection systems that minimise trade-offs between financial sustainability, adequacy and efficiency (Fall et al., 2014). At the current juncture, a large number of countries need to address the rise in long-term unemployment before it turns into higher structural unemployment. This requires policies targeted at the long-term unemployed, such as a more intensive and personalised approach to case management (e.g. regular face-to-face interviews and the development of individual action plans) as well as measures to find job opportunities that contribute to skills acquisition and work experience. Examples of such programmes targeted at the long-term unemployed are the Work Programme in the United Kingdom and the Work Experience Phase in Australia.[27]

As discussed above, the importance of ALMPs is increasingly recognised, as reflected in the sustained pace of reforms in this area since the post-crisis period. Despite this encouraging progress, reforms in this area are still needed, with differential emphasis depending on country-specific performance and policy challenges:

- Belgium, Finland, France, Luxembourg, the Netherlands, Portugal and Slovenia need to improve the design and integration of unemployment benefit and activation schemes so as to better support the return to work. Unemployment income replacement rates for both short and long-term unemployment spells are above the OECD average, while in some cases only weak conditionality for receiving benefits is in place (Venn, 2012). Recommendations include: i) reinforcing the link between benefits, job search and participation in active measures; ii) systematically evaluating the effectiveness of such measures; iii) tapering unemployment benefits along the unemployment spell; and iv) reducing the combined generosity of unemployment benefits and other social transfers (including for the inactive).
- Estonia, Israel, the Slovak Republic, South Africa and the United Kingdom need to develop ALMPs to help workers with weak labour market attachment to find jobs and, where needed, to develop appropriate skills. The emphasis of the recommendations is on better targeting of the groups most at risk (in particular youth and the low-skilled), as well as on more accountability and co-operation with employers.
- Greece, Ireland, Italy, Latvia, Portugal, Spain and the United States have experienced a sharp increase in long-term unemployment relative to pre-crisis levels (Figure 1.6) – and there is evidence that this may have reduced matching efficiency, at least in the United States. As a result, these countries should devote more resources to ALMPs in general but programmes should also be systematically evaluated and funding should be allocated to those that are most effective at increasing employability. As introduced above, policies targeted at long-term unemployed, including re-training programmes, are needed at the current juncture, concentrating on measures that work best given country-specific context.
- Italy, Japan, Korea and Portugal need to increase the coverage of social protection and expand job counselling and training programmes, in combination with appropriate activation measures. Incomplete coverage is a particular concern in these countries because of the incidence of labour market duality, reflected in a substantial proportion of the workforce (often those on fixed-term contracts) that is not covered by the system. Low coverage can hamper the return to work and therefore depress labour market performance and matching: inappropriate income support can reduce the intensity of job search, thereby discouraging jobseekers and inducing them to withdraw from the labour market. In the broader area of the social safety net, Greece should ensure timely implementation of the recently agreed minimum income scheme, drawing lessons from its initial pilot phase.
- Some emerging-market economies (Chile, Indonesia and Turkey) are recommended to increase the coverage of social protection because their welfare systems are comparatively underdeveloped, which contributes to labour informality. The

Russian Federation should raise the level of unemployment benefits and reinforce active labour market and training programmes. This would help reducing the high incidence of long-term unemployment (Figure 1.6), hence improve matching between individual and jobs and encourage human capital accumulation. China is encouraged to reduce barriers to mobility and enable internal labour reallocation by increasing social (education and healthcare) transfers and services to internal migrant families.

Retirement and disability schemes. For a decade, pension reform has been high on the agenda of many governments. Countries have launched significant pension reforms, including raising retirement ages, amending the way entitlements are calculated and introducing measures to generate savings in their pension systems. The crisis has been a major accelerator of pension reform, reflecting fiscal consolidation as well as financial market pressure to signal commitment for debt sustainability (OECD, 2013a). It is therefore not surprising that efforts in this area have been less intensive than during the immediate post-crisis period (Figure 1.4).

Long-term rather than short-term considerations should now prevail as a basis for further action in this area. Public spending on pensions is projected to increase in the vast majority of advanced countries as well as in a number of emerging-market countries over the next 40 years (OECD, 2013f; OECD, 2014a). Such a development is natural as the predicted increase in life expectancy at the age of 65 for the next half century will lead to much higher numbers of pensioners than currently. By now it is widely accepted in most countries that pension systems and rules need to change over time, in particular that retirement ages should adjust to longevity.

The need to implement pension reforms in order to boost growth via higher labour utilisation is more pressing and therefore identified as a *Going for Growth* priority for some countries (Table 1.3), which display relatively low levels of labour force participation and are characterised by financial disincentives for workers to remain active at older ages. Routes to early retirement (for example, exemptions and relaxation of benefit rules targeted at the older unemployed) have been closed by many countries in the 2000s, and such reforms have been successful at raising older workers' employment rates. Nevertheless there are exceptions such as Austria, Belgium and Poland. For the rest of the countries that have a priority in this area, most recommendations cover the general system, e.g. adjusting benefits and retirement age in line with life expectancy and making benefits actuarially neutral.

Pension reform can be examined in light of other objectives than boosting GDP growth: such is the case of ensuring appropriate coverage, adequacy and fiscal sustainability and this leads to frequent trade-offs and synergies, as discussed in detail in OECD (2013f). For example, lowering the generosity of the pension premise can encourage working longer and increase fiscal sustainability but is likely to reduce pension income adequacy. On the other hand, widening the coverage of occupational pensions eases the pressure on the state budget to provide pension and helps diversity risk and improve adequacy.

Reducing early labour market withdrawal via pension reform could trigger an increase in the use of other exit routes, such as disability and sickness benefits. These schemes are sometimes misused and poorly targeted but they are needed to ensure appropriate incomes to individuals whose health status temporarily or permanently prevents them from working or searching for jobs. Reforms have been achieved in the latest period, not least reflecting the crisis context and the need to reduce the risk of labour market

Table 1.3. **Social benefits and ALMPs**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Unemployment benefits/social protection and ALMPs																					
Make UB conditional on work availability and job-search criteria/reinforce activation			✓							✓	✓							✓			
Taper UB along duration/reduce age-bias in UB/reduce progressively the combined generosity of UB and other social benefits (i.e. reduce spikes in marginal effective tax rates)			✓							✓						✓					✓
Expand the coverage or level of UB/social protection and social services	✓				✓								✓					✓			
Expand the coverage of UB, job counselling and training programs to e.g. non-regular workers																		✓	✓	✓	
Strengthen resources for job-search assistance and training whilst improving targeting of ALMPs								✓					✓			✓		✓			
Focus on well-targeted training programs/requalification								✓			✓		✓			✓					
Strengthen monitoring and evaluation of PES											✓		✓			✓		✓			
Expand/target job-placement schemes								✓									✓				
Retirement and disability policies																					
Phase out early retirement pathways (via disability or unemployment)		✓	✓				✓			✓				✓							✓
Increase statutory or minimum retirement age			✓							✓											
Lengthen contribution requirements to claim full pension/make benefits actuarially neutral																					✓
Adjust benefits/retirement age in line with life expectancy		✓								✓				✓							✓
Increase the portability of pension rights									✓												
Review criteria to disability benefits, improve monitoring and integration with ALMPs		✓					✓	✓													

Table 1.3. **Social benefits and ALMPs** *(cont.)*

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Unemployment benefits/social protection and ALMPs																						
Make UB conditional on work availability and job-search criteria/reinforce activation		✓																				
Taper UB along duration/reduce age-bias in UB/reduce progressively the combined generosity of UB and other social benefits (i.e. reduce spikes in marginal effective tax rates)						✓		✓														
Expand the coverage or level of UB/social protection and social services												✓				✓			✓		✓	
Expand the coverage of UB, job counselling and training programs to e.g. non-regular workers						✓																
Strengthen resources for job-search assistance and training whilst improving targeting of ALMPs						✓	✓		✓				✓	✓						✓		
Focus on well-targeted training programs//requalification		✓				✓	✓		✓												✓	✓
Strengthen monitoring and evaluation of PES						✓			✓				✓									
Expand/target job- placement schemes							✓															✓
Retirement and disability policies																						
Phase out early retirement pathways (via disability or unemployment)					✓			✓														
Increase statutory or minimum retirement age					✓			✓				✓										
Lengthen contribution requirements to claim full pension/make benefits actuarially neutral								✓				✓										
Adjust benefits/retirement age in line with life expectancy												✓										
Increase the portability of pension rights																						
Review criteria to disability benefits, improve monitoring and integration with ALMPs		✓		✓						✓				✓								

withdrawal via disability schemes. Recommendations in this area are frequent for the Nordics (Table 1.3), for which a high prevalence of disability has historically been a major challenge. Priority should also be given to disability reforms in the United States, for which this has more recently become an issue: indeed, evidence suggests that the increase in (self-reported) disability may account for about one third of the decline in labour force participation since the beginning of the crisis (OECD, 2014d).[28] Priority should be given to enhancing monitoring of eligibility to disability schemes and, where needed, tightening access to such schemes. Enhanced workplace accommodation and rehabilitation services, increased collaboration with employment services and carefully designed activation measures can promote the return to work.[29]

Labour market regulations and collective wage agreements

Job protection. Stringent employment protection legislation (EPL) may slow down the reallocation process and aggregate productivity growth because it raises labour adjustment costs for the firms (Haltiwanger et al., 2006; Bassanini et al., 2009; Autor et al., 2007). It may also have become more undesirable from the perspective of promoting entrepreneurship and risky investment in knowledge-based capital (KBC), as shown in a recent study (Andrews et al., 2013). At the same time, employment protection may raise the worker's commitment and the firm's incentives to invest in firm-specific human capital, which could raise within-firm productivity (Boeri et al., 2014).

OECD countries are showing signs of a pause in reforms, which follows a period of important changes in a number of countries.[30] A clear tendency towards reducing the strictness of employment protection is observable over the past decade, mostly focussed on regulations governing individual and collective dismissals. Between 2008 and 2013, in particular, more than one-third of OECD countries undertook some relaxation of these regulations, with reforms concentrated in countries with the most stringent provisions at the beginning of the period. Moreover, the main policy interventions since 2008 have consisted in limiting the possibility of reinstatement in the case of unfair dismissal and the extension of the duration of the trial period. These have typically been found in the empirical literature to be aspects of EPL most affecting gross worker flows, in general, and job-to-job transitions, in particular (Bassanini and Garnero, 2013).

Only limited action has occurred as regards temporary contracts. This is in marked contrast with developments during the 1990s and early 2000s, whereby in many countries, hiring on temporary contracts was largely deregulated while stringent restrictions on regular contracts were maintained. Such reforms largely contributed to the development of dual labour markets where outsiders tend to move from one temporary contract to another while insiders enjoy high protection and greater job stability. The empirical literature has clearly pointed out the negative consequences of dual labour markets, in both efficiency and equity terms.[31] This suggests that policymakers are increasingly aware of the danger of facilitating workforce adjustments only through temporary contracts and governments now strive to find a new balance between flexibility requirements and the need for employment security.

Despite the progress achieved, reforms in this area are still needed in a number of countries. The emphasis is on simplifying procedures and reducing costs associated with lay-offs but at the same time strengthening the protection of individuals (as opposed to jobs). This requires having in place adequate income support for the unemployed as well as effective job-search counselling and re-employment services. As a result, job protection recommendations are often formulated as part of broader labour market reform packages – with differential emphasis depending on countries' challenges and weaknesses. Priorities in this area often also cover the efficiency of the process of dispute resolution, as this is a key determinant of the costs and effectiveness of employment protection.[32] Resolving disputes early (either through pre-court dispute resolution mechanisms or pre-trial conciliation) saves time and money compared with waiting for a court decision. Establishing specialised courts or procedures to handle unfair dismissal cases (as is currently the case in more than half of OECD countries) and alternative resolution mechanisms are options to increase effectiveness and efficiency of consultations:

Reforming job protection is a common challenge for both advanced and emerging-market countries (Table 1.4):

- They are still recommended in many European countries, though some of them have taken significant action in the post-crisis period (see previous section and OECD, 2013a; 2013e).
- They should be given prominence in Japan and Korea, where progress has been piecemeal. These countries also suffer from pervasive labour market duality, which contributes in their specific context to exclude women from the labour market.
- They are often recommended for emerging-market countries where little action has been taken in this area, as presented above. High firing and hiring costs in these countries reinforce involuntary informality. A reduction in the strictness of job protection combined with a strengthening of the protection of income, via an extension of the coverage of social insurance systems is one way forward to draw labour force out of informality. Labour law enforcement can also be a challenge in lower-income countries and this can be partly addressed by expanding or better targeting labour inspectorates.

Minimum wages and wage bargaining systems. Low-paid employment is a policy concern when it is associated with in-work poverty or reflects situations where workers are unable to get wages in line with their productivity or to find jobs that make full use of their skills. Such may be the case in Germany and the United States: the proportion of low-wage earners (i.e. earning less than two-thirds of the median wage) is close to one-fifth of employees in Germany and one-quarter in the United States. In order to address this problem, Germany has recently introduced a national legal minimum wage and in the United States, the starting level of the minimum wage has been raised substantially.

The benefits of such measures notwithstanding, setting the level of the minimum wage requires a careful balancing. Too low *net minimum wages* (i.e. minimum-wage workers' take-home pay after they pay taxes, social security contributions and, possibly, receive benefits) can fail to assure adequate living standards and is likely to be ineffective in fostering incentives to work for individuals at the margin of the labour market, in particular the low-skilled. Too high minimum *labour costs* (i.e. the gross cost of employing a minimum-wage worker once payroll taxes and employers contributions are added) can reduce firms' incentives to hire or to formalise employment. Countries have shown quite different preferences in this area (Figure 1.9 and OECD, 2014d).

Policies and institutions can help to avoid minimum wages that are too high and minimise any adverse employment effects. This can be achieved by:[33] i) providing differentiated minimum wages (by age to take account of differences in experience,[34] and by region to take account of differences in average income levels); ii) delegating to an independent agency the responsibility for setting the level of minimum wages;

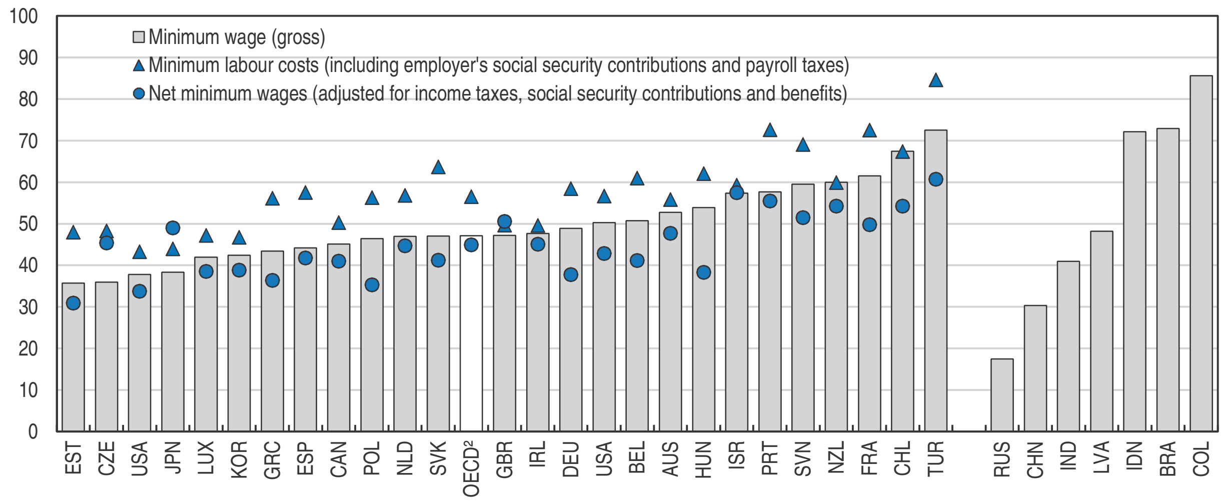
Table 1.4. **Labour market regulation and collective wage agreements**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Job protection																					
Ease EPL on regular workers to narrow the gap with respect to non-regular workers and tackle labour market duality					✓						✓	✓						✓	✓	✓	
Shorten judicial procedures/improve efficiency of the process of dispute resolution											✓							✓	✓	✓	
Lower notice period or severance pay					✓																✓
Ease conditions for justified individual or collective dismissals											✓										✓
Ensure the enforcement of labour laws																	✓				
Minimum wages and wage bargaining systems																					
Reduce the minimum cost of labour/allow for age or regional differentiation																					
Reduce or eliminate administrative extension of collective wage agreements/promote wage bargaining at the firm level			✓																		

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Job protection																						
Ease EPL on regular workers to narrow the gap with respect to non-regular workers and tackle labour market duality									✓	✓								✓				
Shorten judicial procedures/improve efficiency of the process of dispute resolution		✓																				
Lower notice period or severance pay		✓							✓			✓							✓			
Ease conditions for justified individual or collective dismissals		✓								✓								✓	✓			
Ensure the enforcement of labour laws																						
Minimum wages and wage bargaining systems																						✓
Reduce the minimum cost of labour/allow for age or regional differentiation								✓				✓					✓		✓			✓
Reduce or eliminate administrative extension of collective wage agreements/promote wage bargaining at the firm level						✓			✓													

Figure 1.9. **Minimum wages vary widely across OECD and BRIICS countries**[1]

Ratio of minimum to median wage of full-time dependent employees, 2012



1. Countries are ordered by ascending order of the minimum-to-median wage ratio for all countries except for Germany and the United States (ratio after reform proposals). Percentage of minimum to average wage for China, Indonesia, the Russian Federation and India. Data refer to 2013 for BRIICS countries, Latvia and Colombia and to 2009-10 for India.
2. Median ratio for the countries shown.

Source: OECD (2014), *OECD Employment Outlook 2014*, OECD Publishing, Paris; *OECD Employment Outlook Database*; China Ministry of Human Resources and Social Security, National Bureau of Statistics; Instituto Brasileiro de Geografia e Estatística (*Pesquisa Nacional por Amostra de Domicílios*); ILO (International Labour Organization), *Database on Conditions of Work and Employment Laws*; Ministry of Man Power and Transmigration of the Republic of Indonesia and Statistics Indonesia; Russia Federal State Statistics Service; and Rani, U., P. Belser, M. Oelz and S. Ranjbar (2013), "Minimum wage coverage and compliance in developing countries", *International Labour Review*, Vol. 152, No. 3-4.

StatLink http://dx.doi.org/10.1787/888933177380

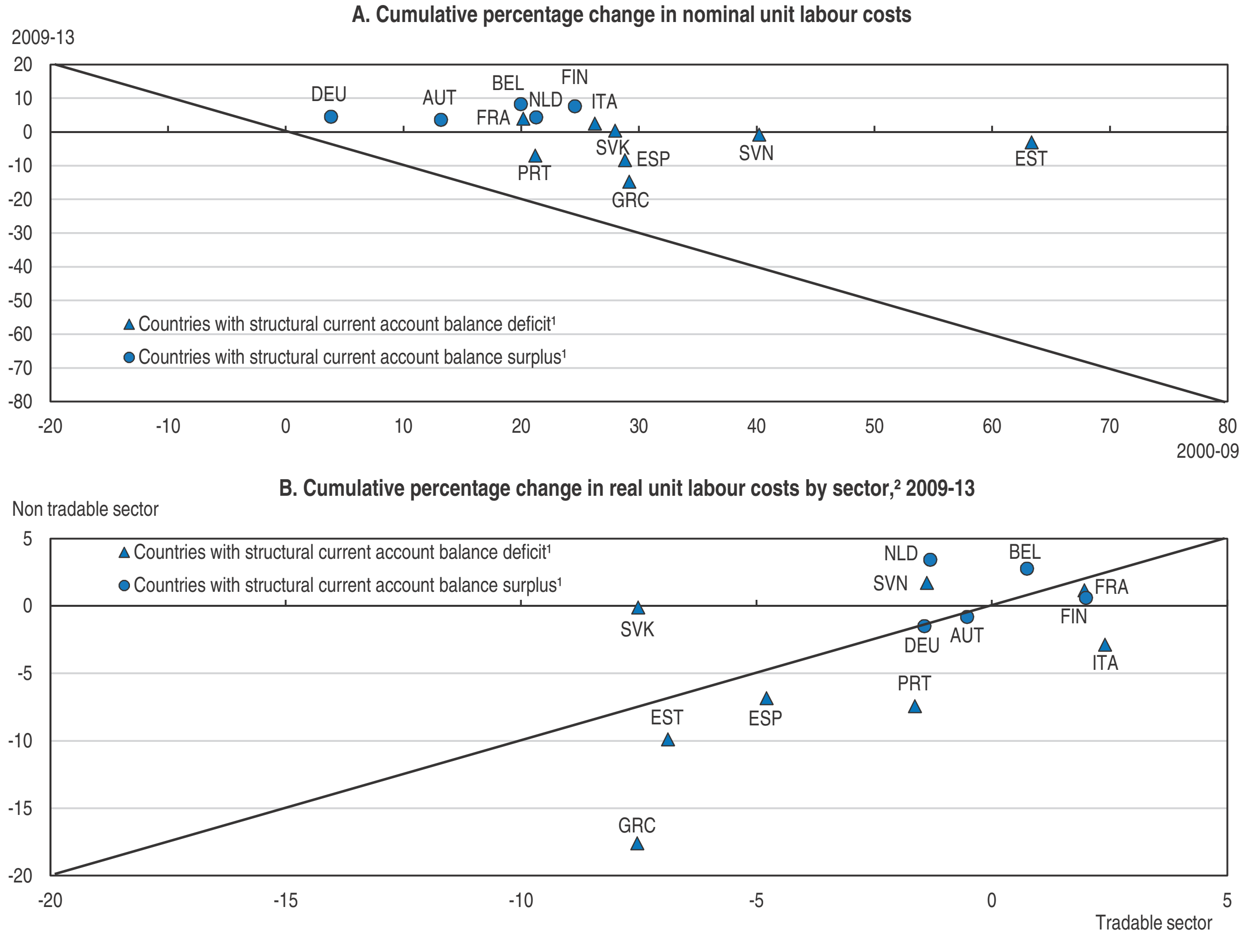
iii) establishing preferential rates to lower non-wage labour costs at the minimum wage; and iv) introducing in-work-benefits for low-paid workers to avoid nominal increases in minimum wages and therefore reduce the real labour costs of minimum wage earners.[35] Reforms in this area are recommended for countries where ill-designed minimum wage policies appear to weigh on low-skilled or formal employment (Table 1.4).

The cost of labour can also be driven to levels that are detrimental to employment by collective wage agreements that in some countries are administratively extended to workers and employers who are not party to the original negotiations and settlements (and who may sometimes be in different sectors and regions). Recommendations emphasise reducing or eliminating automatic extension of wage agreements and, more broadly, promoting wage bargaining at the firm level (Table 1.4). Reforms along these lines increase the responsiveness of wages to labour market conditions and help preserve jobs in downturns.

Despite the more recent slowdown in actions taken (see Figure 1.4), earlier reforms in this area may have contributed to the significant decline in unit labour costs observed since 2009 in Greece, Portugal and Spain.[36] However, this decline remains small relative to the increase that, in the pre-crisis period, led to large losses of competitiveness in these and other euro area countries (Figure 1.10, Panel A).

Continuous monitoring of the effects of the reforms in this area is advisable, and governments must be ready to implement further action if performance worsens.[37] Monitoring trends in income inequality is also needed in order to guarantee that costs and benefits of these reforms are equally shared. Further adjustments based on wage cuts may be difficult to achieve at the current juncture.[38] Restoring competitiveness in euro area periphery

Figure 1.10. **Southern euro area countries have regained some competitiveness**



1. Countries are classified according to their current account balance before the global financial crisis (2007). The last available year is 2012 for Austria, Estonia, France, Italy, Portugal and the Slovak Republic.
2. Tradable sector refers to manufacturing, wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, information and communication, financial and insurance activities, real estate activities, professional, scientific and technical activities, administrative and support service activities. Non-tradable sector refers to construction, accommodation and food service activities, public administration and defence, compulsory social security, education, human health and social work activities, arts, entertainment and recreation, other service activities, activities of households as employers, undifferentiated goods and services producing activities of households for own use, Activities of extraterritorial organisations and bodies.

Source: OECD (2014), *OECD Employment Outlook 2014*, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933177394

countries requires complementary measures to stimulate product market competition and facilitate the reallocation of capital and labour resources across firms and sectors:[39]

- Prices eventually adjust in response to wage developments. Yet, available evidence suggests that nominal reductions in wages have not fully transmitted into lower prices in euro area periphery countries where nominal wage adjustments have been large: real unit labour costs have tended to decline, and this decline tends to be largely concentrated in the non-tradable sector. This suggests that lower nominal wages, particularly in the non-tradable sector, were not fully passed onto lower prices, reducing the labour share in overall income (Figure 1.10, Panel B, and OECD, 2014e). This is likely to reflect limited product market competition in the non-tradable sector. As developed below, product market reforms are necessary complements to labour market reforms in this context, by spurring price responsiveness to wage developments.

- To rebalance the economy, activity and jobs need to shift from non-tradable to tradable industries. Again, the data suggest that such reallocation has been particularly slow in euro area periphery countries, potentially reflecting skills mismatch (OECD, 2014e). As a result, reforms of ALMPs are also needed – especially for training and work-experience programmes.

Housing, planning and zoning policies

Ill-designed institutional settings regulating (residential and commercial) property and land-use can discourage labour as well as capital mobility, often by distorting the price responsiveness of construction to supply and demand conditions. Country-specific recommendations in this area are formulated with a view to boost both labour utilisation and labour productivity (Table 1.5).[40] As in other policy areas, some recommendations can raise tradeoffs with other objectives, in particular equity (see Chapter 2). One example is social housing, which is an important tool to improve access to affordable housing among vulnerable households, but may act as a barrier to labour mobility.

The main channels through which policy distortions can depress labour utilisation and productivity include (see Chapter 4 in OECD, 2011a):

- Excessive rent regulations result in under-developed rental markets (e.g. Sweden). This hinders labour mobility and reallocation, reducing in turn matching between workers and jobs. The consequence is lower productivity and higher unemployment.
- Overly stringent planning and zoning regulations raise house price levels and volatility (e.g. the United Kingdom). This undermines financial and economic stability. It also reduces productivity as a result of lower competition – for instance in certain sectors such as retail trade.
- Generous tax treatment of home ownership (such as mortgage interest deductibility without taxation of imputed rents, e.g. the United States) is an inefficient public subsidy: it contributes to capital misallocation, which reduces productivity and raises housing price pressures, with the risk of creating housing bubbles. Furthermore, it is generally a regressive transfer, as lower-income households are less likely to benefit from it (Cournède et al., 2013).

Policies to enhance labour productivity

Short-run challenges

Labour productivity growth has tended to be negative in the large majority of OECD countries during the crisis period, in part as a result of labour hoarding. The gradual recovery in aggregate demand has allowed productivity growth to turn positive during the initial recovery but it remains sluggish in most countries. One of the factors contributing to the slow pick-up in labour productivity is the weak recovery in fixed investment, in particular compared to previous recovery episodes (OECD, 2014g). Macroeconomic policies can help stimulate investment by supporting demand. Structural policies can also play a role in improving short-term prospects, notably by reducing uncertainty about the state of the economy, future policy developments and external financing conditions. Co-ordinated efforts across countries should also be pursued to tackle remaining financial system dysfunctions and ensure that the quality of banks' balance sheets is restored. Efforts in individual countries on areas identified as priorities are also likely to help boosting investment, in particular the lifting of restrictions facing foreign investors, as well as those hindering the funding of infrastructure projects.

Table 1.5. **Housing, planning and zoning policies**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Remove obstacles to the expansion of a private residential market/reduce rent regulation							✓														
Improve targeting or reduce the use of housing subsidies/improve targeting in the provision of social housing							✓														
Reduce/eliminate preferential tax treatment for housing investment/reform property taxation							✓	✓													✓
Loosen/reform land, zoning and planning restrictions							✓			✓						✓					✓

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Remove obstacles to the expansion of a private residential market/reduce rent regulation		✓			✓		✓			✓												
Improve targeting or reduce the use of housing subsidies/improve targeting in the provision of social housing		✓					✓															
Reduce/eliminate preferential tax treatment for housing investment/reform property taxation		✓		✓	✓					✓				✓								
Loosen/reform land, zoning and planning restrictions		✓			✓					✓			✓					✓				

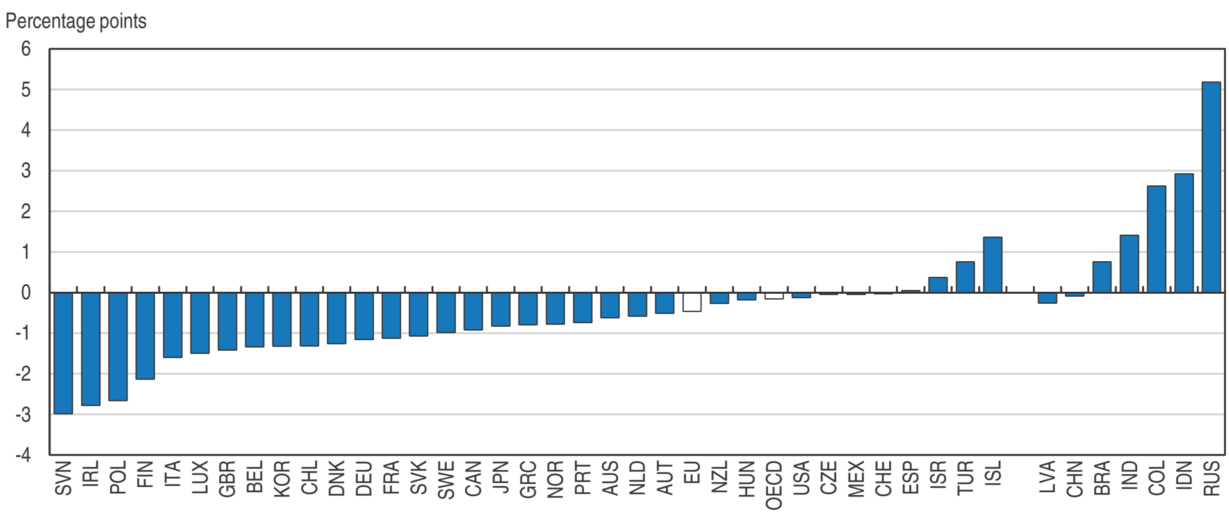
Note: For Finland, Sweden and the United Kingdom, this recommendation is mainly aimed at boosting productivity but is covered here to simplify the presentation.

Long-term challenges

Beyond cyclical developments, there is some evidence of a general slowdown in productivity growth during the 2000s compared with the previous decade (Figure 1.11). In a longer-term perspective, productivity growth is expected to slow in advanced and especially emerging-market countries as detailed in the *OECD 50-Year Global Scenario* (OECD, 2014a). Emerging-market countries have grown rapidly in recent years, but the pace of catching-up is likely to slow sharply as GDP per capita in these countries converges towards higher levels. Because of demographic developments in advanced economies, growth is bound to become increasingly dependent on rising multifactor productivity (MFP): OECD long-term projections suggest that the MFP contribution to GDP per capita could rise from around 54% to 88% in OECD countries between 2010 and 2060.

Figure 1.11. **Trend labour productivity has slowed in a majority of OECD countries since the 1990s**

Difference in average annual growth of GDP per hour worked between 2000-13 and 1990-2000[1]



1. Labour productivity is defined as GDP per employee for Brazil, China, Colombia, India and Indonesia. The first year available is 1991 for Brazil, Chile, Colombia, Hungary, Iceland, Indonesia, Mexico and OECD; 1992 for the Russian Federation; 1993 for the Czech Republic and Poland; 1994 for the European Union; 1995 for Austria, the Slovak Republic and Slovenia; 1998 for Latvia.

Source: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177405

Countries with a higher stock of knowledge-based assets are likely to adapt more easily to changes in the pace of frontier growth. The accumulation of such assets can be encouraged by some of the structural policies identified as priorities, in particular encouraging up-skilling, but also improving framework conditions such as easing barriers to entry and development for domestic and foreign firms. The *Going for Growth* framework identifies such country-specific priorities to be implemented at the national level. Yet closer economic integration and rising cross-country interdependence brings additional challenges that will require stronger international co-ordination on structural policies in a number of areas, not only trade but also R&D, innovation, taxation, competition and other fields affecting the corporate sector. Some of these issues and associated policy requirements at the supra-national level are presented and discussed in detail in OECD (2014a).

Human capital

Knowledge is likely to be the main driver of growth in the future and policies geared towards enhancing skills will be crucial in this respect. Improving education is identified as a priority for a vast majority of OECD and partner countries and the specific recommendations vary depending on the sources of policy weaknesses. Despite widespread and sustained educational reforms (Figure 1.4), country-specific priorities in this area are rarely removed from one to the next issue of *Going for Growth* – as discussed in the previous section. Indeed, education is a fundamental driver of long-term growth and requires pursued efforts over an extended period of time.

Recommendations can be grouped into several areas, as summarised in Table 1.6. In pre-primary, primary and secondary education, the common emphasis is on raising teacher quality and addressing educational inequalities, with a focus on enhancing the targeting and effectiveness of resources devoted to disadvantaged students and schools. Indeed, social returns to education are high, but relate mostly to earlier stages of education and especially for disadvantaged individuals (Heckman et al., 2005). Increasing the quality of lower-level schooling across broad segments of the population is thus important both for securing improved productivity, but also for achieving rising participation in higher education. High-quality primary and secondary education should be prioritised in public funding because those are a prerequisite for raising skill levels and expanding tertiary education. Recommendations to address bottlenecks in schooling infrastructure are relatively frequent for emerging-market countries, which may require raising public investment.

Recommendations in the area of tertiary education are more prevalent for higher-income countries, with a majority of priorities aimed at increasing autonomy and enhancing funding. The emphasis is on increasing co-payments by students. Indeed, funding reforms where students finance a larger share of direct costs could align incentives better and provide additional financing for an expansion of tertiary education because (OECD, 2014a):

- Increasing levels of co-payments are more effective than increasing funds from government or corporate sources at raising tertiary graduation rates and earlier completion. This likely reflects that universities that rely more on co-payments become more focused on "delivery" of degrees, but may also encourage students to finalise studies quickly and discourage entry of students with low probabilities of completing university. This discouragement effect underscores the limitations associated with co-funding, which may eventually reduce tertiary education achievements and therefore productivity.
- Rising internationalisation of higher education – with the number of students from OECD countries enrolled abroad more than doubling between 2000 and 2011 (OECD, 2013g) – and increasing international mobility of skilled labour, further strengthens the rationale for students to cover a larger share of the costs of tertiary education.

Recommendations in the area of vocational education and training (VET) have been on the rise in *Going for Growth* reports. The recent focus on VET partly reflects lessons from the crisis as youth unemployment has remained very low in countries with well-designed VET systems, such as Germany. In the short run, reforms in this area are therefore likely to be particularly useful in countries facing persistently high youth unemployment, such as Italy, Portugal and Spain. In a longer-run perspective, expanding or enhancing the effectiveness of VET will provide a better bridge between education and the labour market. This is needed as the nature of future economic growth will likely entail substantial firm

Table 1.6. **Human capital and R&D/innovation**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Human capital																					
Early childhood education																					
Expand access to quality childcare and early education/improve targeting	✓				✓	✓						✓				✓			✓	✓	
Primary and secondary education																	✓				
Ensure adequate school resources and infrastructure						✓						✓									
Improve teaching quality/improve incentives for talented teachers (especially to work in difficult schools)						✓					✓				✓						
Improve school accountability and autonomy													✓		✓						
Improve curricula and evaluation					✓		✓						✓		✓		✓	✓			
Postpone early tracking						✓						✓		✓							
Limit grade repetition											✓	✓									
Improve incentives to secondary education completion/focus on reduce dropout							✓				✓	✓									
Reduce inequality in educational outcomes and opportunities	✓				✓						✓	✓		✓	✓		✓				
Tertiary education																					
Increase university autonomy and accountability or specialisation by institutions				✓		✓							✓								
Improve curricula and evaluation					✓		✓						✓								
Introduce/raise tuition fees flanked by income-contingent loans/mean-tested grants		✓		✓		✓					✓	✓						✓			
Improve targeting of means-tested financial assistance				✓				✓				✓		✓							
Improve incentives to earlier completion/encourage early admission																					
Expand access/enrolment/reduce inequalities in access		✓		✓	✓			✓						✓							
Expand access to and effectiveness of apprenticeships and VET and their relevance to labour market needs					✓	✓	✓	✓				✓						✓			
Expand access to and effectiveness of lifelong/job-related education and training						✓	✓		✓	✓	✓								✓	✓	
R&D and innovation																					
Increase public support					✓																
Increase and/or reform indirect R&D support – tax incentives				✓																	
Increase and/or direct R&D support				✓																	
Improve targeting of public support/evaluate grant programs				✓		✓		✓								✓					
Move towards a more balanced approach between direct and indirect support				✓																	
Improve access to venture capital																					
Strengthen collaboration between research centres/universities and industry	✓				✓	✓		✓	✓							✓					
Enhance efficiency of immigration policy: education and innovation policies/recognition of professional qualifications									✓												

Table 1.6. **Human capital and R&D/innovation** *(cont.)*

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Human capital																						
Early childhood education																						
Expand access to quality childcare and early education/improve targeting			✓		✓		✓				✓	✓	✓	✓			✓					
Primary and secondary education																						
Ensure adequate school resources and infrastructure	✓										✓	✓			✓			✓	✓			✓
Improve teaching quality/improve incentives for talented teachers (especially to work in difficult schools)	✓		✓	✓						✓				✓	✓			✓	✓			✓
Improve school accountability and autonomy				✓								✓			✓							✓
Improve curricula and evaluation	✓		✓											✓								✓
Postpone early tracking																						
Limit grade repetition						✓																
Improve incentives to secondary education completion/focus on reduce dropout						✓				✓			✓		✓							
Reduce inequality in educational outcomes and opportunities			✓				✓				✓			✓	✓	✓		✓				
Tertiary education																						
Increase university autonomy and accountability or specialisation by institutions					✓		✓	✓	✓			✓					✓					
Improve curricula and evaluation																✓						
Introduce/raise tuition fees flanked by income-contingent loans/mean-tested grants					✓		✓	✓														
Improve targeting of means-tested financial assistance								✓	✓		✓						✓					
Improve incentives to earlier completion/encourage early admission								✓		✓												
Expand access/enrolment/reduce inequalities in access							✓				✓					✓	✓					
Expand access to and effectiveness of apprenticeships and VET and their relevance to labour market needs			✓		✓	✓	✓		✓	✓		✓	✓	✓	✓	✓		✓				✓
Expand access to and effectiveness of lifelong/job-related education and training					✓	✓	✓		✓			✓										✓
R&D and innovation																						
Increase public support							✓										✓			✓	✓	
Increase and/or reform indirect R&D support – tax incentives						✓	✓															
Increase and/or reform direct R&D support			✓				✓										✓					
Improve targeting of public support/evaluate grant programs	✓		✓				✓										✓			✓	✓	
Move towards a more balanced approach between direct and indirect support						✓															✓	
Improve access to venture capital	✓						✓															
Strengthen collaboration between research centres/universities and industry	✓					✓	✓	✓												✓		
Enhance efficiency of immigration policy: education and innovation policies/recognition of professional qualifications			✓																			

turnover. As a result, policies should focus on facilitating job matching, allowing the labour force to adapt more quickly to new skills requirements and changes in industrial and occupational structures.

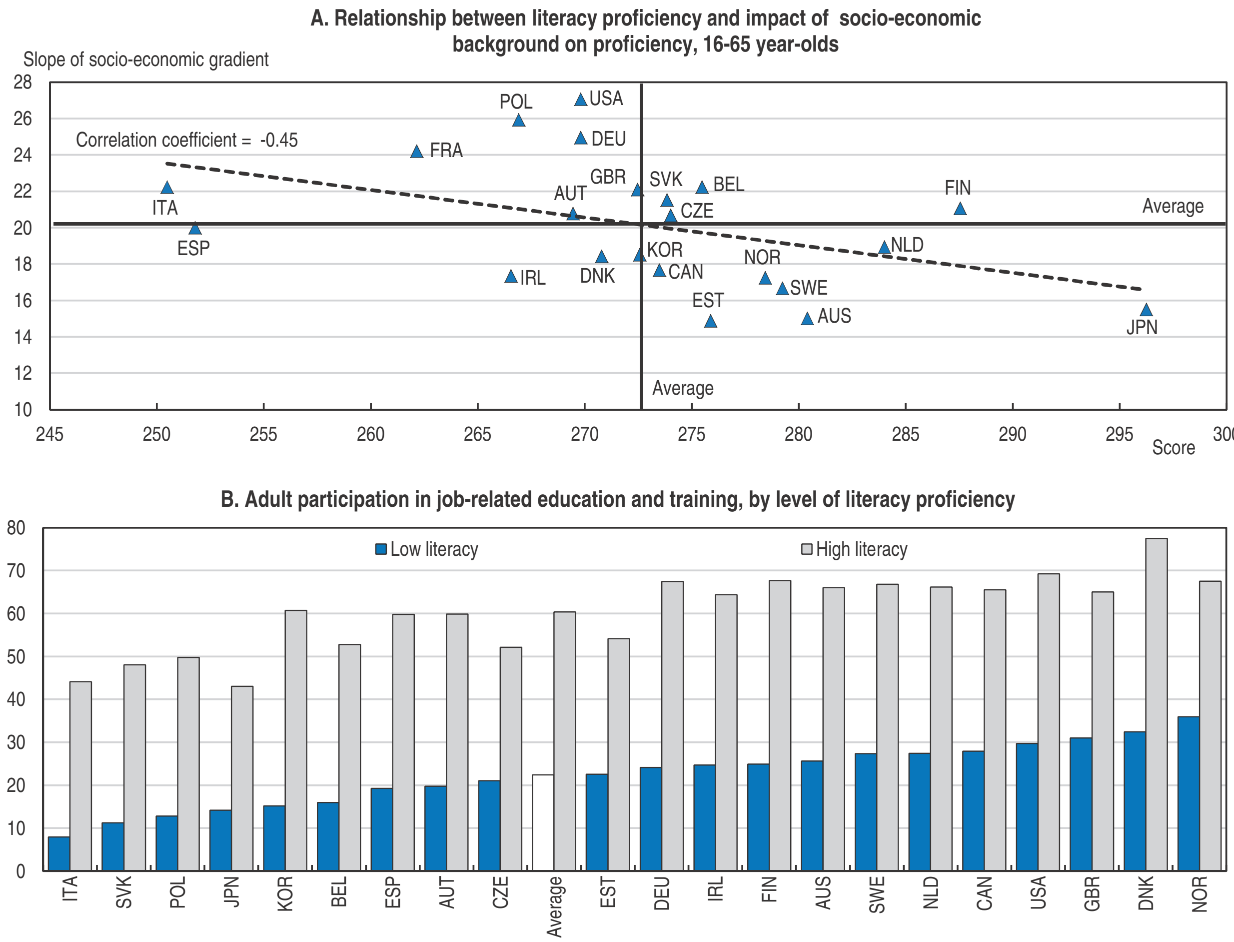
Increasing the adaptability of the labour force will nevertheless be challenged by population ageing. An ageing workforce will likely be less able to adapt to structural change, risking increasing mismatches in the labour market and slow structural change. Longer working-lives will mean a longer period where depreciation of skills and technological change risk making human capital obsolete. This calls for expanding life-long learning. Policies should focus on facilitating the development of labour force skills and competencies: among the unemployed, as discussed in the context of ALMPs; but also among workers throughout their working-lives. The case for government support for life-long learning may be as strong as for tertiary education, considering that lower cross-country mobility among older workers means that the social benefits in terms of higher productivity and longer careers to a larger extent will benefit the domestic economy.

An increase in the supply of lifelong learning must be accompanied by an improvement in the equality of access. Regarding adult skills as measured by the survey of literacy proficiency in the Programme for the International Assessment of Adult Competencies (OECD, 2013h), some countries combine relatively low levels of performance and of equality of opportunities (Figure 1.12, Panel A). Policies are needed to address both challenges. Compulsory education should do as much as possible to ensure that school-leavers have the necessary skills. At later stages, lifelong policies should ensure that there are opportunities to catch up. Across the OECD, the adults that would benefit most from lifelong learning are those that have the lowest probability to participate in job-related training, but there are marked cross-country differences in this respect (Figure 1.12, Panel B). In some countries this is due to the fact that some categories of less skilled workers (in particular non-regular workers) receive very little training. Access to training should be expanded and associated institutions should identify adults who require support and provide them with learning opportunities tailored to their needs.

R&D and innovation

Innovative capacity boosts productivity both by advancing the technology frontier (mainly in advanced economies) and by speeding up the adoption of existing technology (in less advanced countries). Performance in this area is highly heterogeneous across OECD and partner countries (Figure 1.13). While investment in innovation has traditionally been proxied by a few indicators, such as spending on R&D and the purchase of capital embodying new technologies, innovation-based growth relies on a much broader range of knowledge-based assets. These include employee skills, organisational know-how, databases, design, brands and various forms of intellectual property.[41] Well-designed innovation policies are needed to encourage KBC-led growth, because investing in KBC involves considerable uncertainty while associated outcomes are often widely shared within the economy. They should be complemented by appropriate framework conditions, e.g. well-functioning product, labour and financial (especially venture capital) markets that encourage the reallocation of capital and jobs across firms as well as bankruptcy laws that spread the cost of failure broadly.

Figure 1.12. **Improving skill levels across adult population is a challenge for most countries**[1]



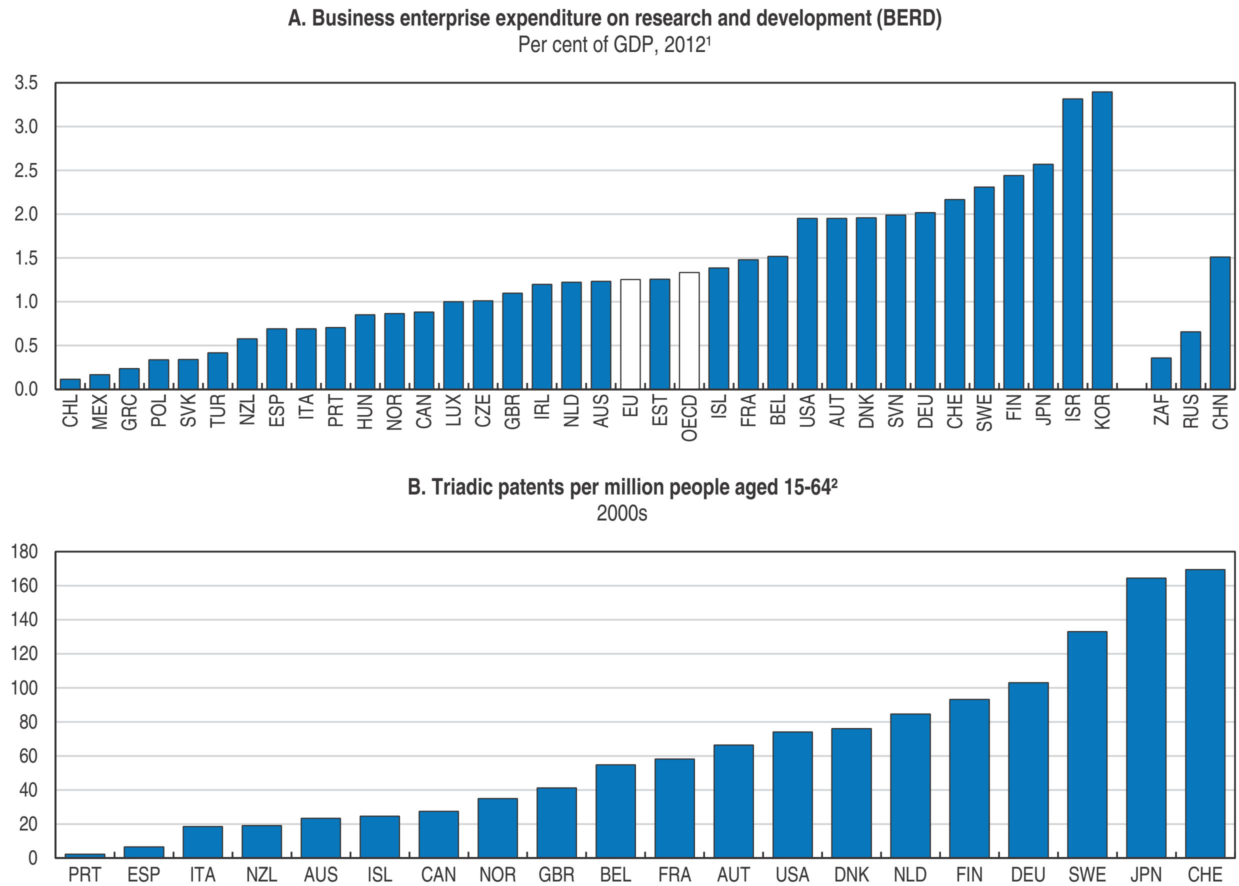
1. The averages represent the average scores of OECD countries participating in the survey. The slope of socio-economic gradient represents the score-point difference associated with one unit increase in parents' level of educational attainment. Low literacy refers to "level 1" score and high literacy refers to "level 4/5" score of PIAAC test.

Source: OECD (2013), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933177417

Public support to R&D remains the dominant pillar of innovation policy. A mix of incremental R&D tax incentives and selective direct grants is considered the best approach, but administrative and compliance costs associated with such mix can be substantial. R&D tax incentives tend to have higher deadweight losses, for instance reflecting the unintended consequences of protecting incumbents and thus slowing down the reallocation process and the entry of new dynamic firms, often an important source of knowledge-based capital. R&D tax incentives should thus be refundable and contain carry-over provisions in order to make them more suitable to the needs of young firms (Andrews and Criuscolo, 2013). A common recommendation is to achieve a better balance between tax incentives and direct grants while pursuing a close evaluation of the grant programmes. Innovative capacity requires a strong network of knowledge transmission nurtured through R&D collaboration among firms as well as between higher education institutes and firms. Hence, recommendations often include strengthening collaboration between research institutes/universities and industry.

Figure 1.13. **Innovation efforts and outcomes vary widely across countries**



1. 2011 data for Australia, Iceland, Mexico, New Zealand and South Africa.
2. The patent measure is based on triadic patents, which refer to a series of patents for the one invention filed at the European Patent Office, the United States Patent and Trademark Office and the Japan Patent Office.

Source: OECD, *Main Science and Technology Indicators Database*; and Andrews, D. and C. Criscuolo (2013), "Knowledge-Based Capital, Innovation and Resource Allocation", *OECD Economics Department Working Papers*, No. 1046, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933177421

Reflecting the rising importance of innovation-led growth, priorities in this area have become more prevalent across *Going for Growth* issues and are identified for many advanced and emerging-market countries (Table 1.6). Reforms to boost innovation have been on the rise, as presented above. Efforts in this area should be pursued, not least because associated reforms may require some policy experimentation and thus evaluation (including on cost-effectiveness) to provide guidance for further progress.

Product market reforms

A broad range of firm, industry and macro-level evidence illustrate the impact of product market regulation on the pace of productivity convergence.[42] Pro-competition product market regulations affect aggregate productivity via various channels such as the speed at which new sectors can grow, innovative effort and the incorporation of foreign technologies, as well as skills and managerial ability.[43] Estimates of the potential impacts of product market reform point to a strong pay-off, with the long-term gains in living standards achieved relatively rapidly.[44, 45]

The vast majority of emerging-market countries have at least one product market reform priority. This reflects concomitant large productivity gaps, high barriers to entrepreneurship and pervasive state control, in spite of encouraging and sustained reform progress in this area (Figure 1.4 and OECD, 2013a). Associated recommendations are sometimes targeted at infrastructure sectors with a view to addressing physical and regulatory bottlenecks. Product market reforms remain a priority for many advanced countries. Progress has been uneven across countries and fields of regulation (OECD, 2014b), and, on average, reform intensity has been declining most recently (Figure 1.4). Policy recommendations in this area are summarised in Table 1.7.

Reducing economy-wide regulatory burdens is needed in many countries. Frequent associated recommendations include lifting barriers to firm entry and exit, improving the transparency of regulation, reducing state control and strengthening competition frameworks. Some countries (such as Canada) are advised to reduce the stringency of environmental regulations, as those can affect barriers to entry through several channels (Box 1.5). This is a new policy area covered in *Going for Growth*. The extension in scope is made possible thanks to the availability of a new set of policy indicators measuring administrative burdens and barriers to competition arising from environmental instruments.[46]

Reducing sector-specific regulatory burdens, especially in non-manufacturing, e.g. retail trade and professional services as well as network industries, is also a very frequent recommendation. Product market reforms in this area could facilitate adjustments in unit labour costs and boost jobs creation in European countries facing high structural unemployment and competitiveness challenges, as argued in the previous section. In particular, reducing regulatory barriers to firm entry and competition in sectors where there is pent-up demand such as retail trade and professional services could spur job creation. Stronger competition, especially in services, would ensure that recent wage reductions in euro area periphery countries result in job creation and lower consumer prices rather than higher profits. This would help workers in these countries to reap the benefits from recently-introduced labour market reforms. In fact, product market reforms become even more important now insofar as the lack of competition in product markets risks undermining the success of labour market liberalisation.[47]

Core euro area countries have not taken much action to liberalise sheltered sectors (OECD, 2013a), and this weakens internal euro area rebalancing. Yet high barriers to competition undermine these countries' productive potential and need to be reduced, especially in non-tradable services. Product market liberalisation would help boosting overall productivity by raising the currently very low contribution from services industries in some countries, such as Germany (Figure 1.14). Reforms would also bring benefits outside Europe, in particular Japan and Korea; in the latter case, strong overall productivity growth was entirely due to manufacturing while the contribution from services was null (Figure 1.14). Japan and Korea will not narrow their relatively large productivity gaps with respect to the upper half of the OECD (Figure 1.5) unless they move away from a manufacturing-led growth model to a more balanced growth-model, by encouraging productivity growth in services; this requires reducing policy distortions, in particular barriers to entry and investment for domestic and foreign firms.

Table 1.7. **Regulatory distortions for domestic and foreign firms**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	Denmark	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Reduce economy-wide regulatory burdens																						
Lift barriers to entrepreneurship/reduce cost and legal barriers to entry										✓						✓	✓	✓		✓	✓	
Ease business exit/bankruptcy procedures										✓				✓					✓			
Streamline permit and licensing systems/red tape										✓						✓	✓	✓				
Improve the transparency/fragmentation of regulation					✓										✓	✓					✓	
Strengthen the competition framework					✓	✓			✓						✓					✓		
Reduce the scope of public ownership/state intervention				✓		✓					✓		✓	✓					✓	✓		
Improve corporate governance of state-owned enterprises						✓													✓			
Introduce or expand regulatory impact assessment															✓							
Reduce to the stringency of environmental regulations				✓																		
Reduce sector-specific regulatory burdens																						
Services										✓			✓				✓			✓	✓	✓
Energy and other network sectors		✓	✓	✓	✓			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓		✓		
Retail trade and professional services		✓	✓	✓					✓	✓	✓	✓	✓	✓	✓		✓					✓
Reduce barriers to FDI and international trade																						
Relax barriers to FDI				✓												✓				✓	✓	
Relax barriers to trade																		✓		✓	✓	
Encourage trade facilitation measures – reduce transaction costs																						
Reduce/reform public subsidies to agriculture and energy																						
Agriculture										✓						✓		✓		✓	✓	
Energy																						

Table 1.7. **Regulatory distortions for domestic and foreign firms** *(cont.)*

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Reduce economy-wide regulatory burdens																						
Lift barriers to entrepreneurship/reduce cost and legal barriers to entry	✓				✓		✓									✓		✓	✓	✓	✓	✓
Ease business exit/bankruptcy procedures					✓													✓				✓
Streamline permit and licensing systems/red tape							✓													✓	✓	✓
Improve the transparency/fragmentation of regulation								✓	✓									✓	✓			
Strengthen the competition framework	✓							✓								✓						✓
Reduce the scope of public ownership/state intervention				✓	✓		✓	✓								✓					✓	✓
Improve corporate governance of state-owned enterprises					✓			✓												✓	✓	
Introduce or expand regulatory impact assessment																					✓	
Reduce to the stringency of environmental regulations																						
Reduce sector-specific regulatory burdens																						
Services																						
Energy and other network sectors	✓		✓	✓	✓	✓	✓	✓	✓			✓			✓							✓
Retail trade and professional services				✓	✓	✓	✓		✓													
Reduce barriers to FDI and international trade																						
Relax barriers to FDI	✓		✓													✓			✓		✓	
Relax barriers to trade											✓				✓							
Encourage trade facilitation measures – reduce transaction costs																						
Reduce/reform public subsidies to agriculture and energy																			✓			
Agriculture				✓							✓	✓										
Energy																			✓			

Box 1.5. **Environmental policies and barriers to entry and competition**

The channels through which environmental policies can provide advantages to incumbent firms over (potential) new entrants are at least fivefold:

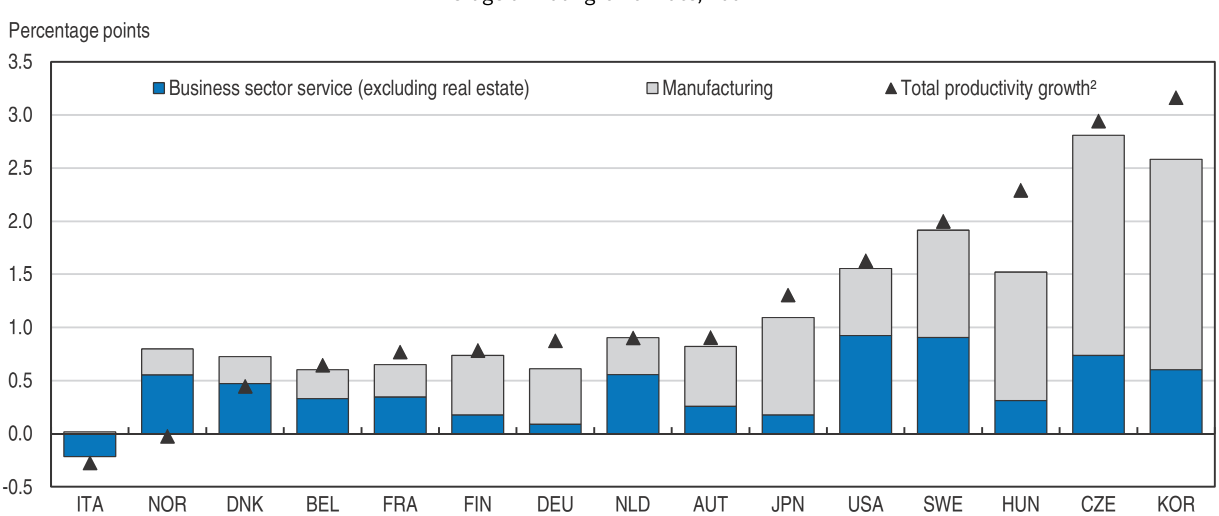
- Direct application of more stringent rules for entrants (e.g. vintage-differentiated regulations) and additional fixed costs, which discriminate against prospective entrants, for example due to the time and resources it takes to learn to comply with the regulation.
- "Rewards" based on historical performance – grandfathered emission rights, public procurement advantages, subsidies or tax breaks in return for improvements in environmental outcomes.
- Increased sunk costs associated with entry, which raise the risks for potential entrants and may encourage entry-deterring practices among incumbents.
- Administrative barriers that slow down the actual process of entry, aside from a monetary cost.
- Prescriptive regulations which may inhibit entrants with new ideas, which were unforeseen by policymakers.

In general, environmental policy instruments concentrate on selected industries associated with "high" environmental impacts or risks, dealing with particular substances and technologies, and in particular locations. However, as proven for other regulatory barriers to competition, minimising the impediments to competition associated with environmental policies for the directly affected industries can trigger much broader overall effects.

Source: Albrizio et al. (2014) and Kozluk (2014).

Figure 1.14. **The contribution of the service sector to overall productivity is weak in several countries**

Average annual growth rate, 2001-11[1]



1. 2001-10 data for Hungary, Korea and United States. 2001-08 data for Japan.
2. Labour productivity is measured as real value added per engaged person.

Source: OECD, *STAN Structural Analysis* and *Labour Force Statistics Databases*.

StatLink http://dx.doi.org/10.1787/888933177431

Trade and foreign direct investment (FDI)

Reducing barriers to trade and FDI should be given priority, especially in emerging-market countries that suffer from large productivity gaps (Table 1.7). Greater openness to trade and FDI can unleash productive potential by raising the scope for cross-border knowledge diffusion and enhancing competition.[48] The participation in Global Value Chains (GVC) – activities where goods and services cross several borders along different value-added stages – has allowed lower-income countries accessing world demand and advanced technologies. Nevertheless, trade within GVCs can magnify the negative impact of tariff and non-tariff trade barriers (OECD, 2013i). This makes it all the more important to reduce such barriers in countries where they remain too high. In addition, enhancing trade facilitation, by e.g. measures to modernise and simplify customs procedures, would improve the capacity to export and import high-quality inputs.[49] Increased exposure to FDI can also encourage integration into GVCs and boost productivity through technology transfer and the provision of sophisticated inputs. Recommendations in this area cover both specific sectors where restrictions are a particular concern – in particular in services, representing almost half of the value-added embodied in the exports of G20 economies[50] – and more broadly, the transparency of screening procedures.

Growth gains would be larger from multilateral than regional trade liberalisation, as illustrated by recent OECD work (Johansson and Olaberria, 2014). Even a partial trade liberalisation deal concluded at a multilateral level via the WTO could raise world GDP by about 3% in the long term relative to a scenario where no further trade liberalisation is achieved. Emerging-market countries would benefit the most: for instance, long-term GDP could rise by almost 4% in China, Mexico, the Russian Federation and Turkey and even more in India and other Asian regions.

Agriculture and energy subsidies

Public subsidies for agricultural production distort efficient resources allocation and limit productivity gains. Reducing producer support – and to de-link it from production – is a priority in the countries where subsidies remain high (Table 1.7). Encouraging progress has been recently achieved in this area, which had proven historically difficult to reform (Figure 1.4 and OECD, 2013a; 2014b). For example, Japan and the United States have been gradually reducing agricultural subsidies. Similarly to agricultural support, energy subsidies are sometimes used as social policy devices, but they distort markets and waste resources that could be more effectively targeted directly at the poor – such as through cash transfers – or at growth-promoting spending. Reducing such subsidies substantially is a priority for Indonesia.

Significant reform progress in this area would prevent environmental damages from slowing down growth, for instance by promoting a shift toward a cleaner development path. Such policies could also generate significant fiscal revenues (OECD, 2013j). Meanwhile, the International Energy Agency has estimated that price-driven subsidies encouraging the consumption of fossil fuels in a selection of developing and emerging-market countries amounted to approximately USD 544 billion in 2012 (IEA, 2013).

Tax system – structure and efficiency

A more growth- and equity-friendly tax system can be achieved by shifting the tax burden away from direct income toward consumption, immovable property and the environment, broadening the tax base and reducing the fragmentation of the tax system.[51] The pace of reform in this area has been slowing most recently across the OECD, following a period of widespread crisis-driven tax reforms, as discussed above. Countries still exhibit wide scope for improvement in this respect, and tax reform feature among frequent priorities. Recommendations vary depending on country-specific performance and policy weaknesses (Table 1.8). Reductions in labour or corporate taxes are recommended alongside increases in indirect taxes; whether it is recommended to increase one or several of these taxes depends on country-specific sources of policy distortions.

Shifting the tax burden towards less mobile tax bases could gain stronger relevance and traction in the future – in a context where further global integration will make some tax bases more mobile, which will put pressure on income and corporate taxes. Furthermore, cross-country co-ordination in tax policy may be needed in view of the rise in globalisation, an issue which is not covered among country-specific *Going for Growth* priorities.[52] In particular, rising trade integration will make international co-operation on taxation more important in areas where global negative externalities are large (such as carbon taxation) and tax bases highly mobile (such as capital and intangible assets).[53]

Simplifying the tax system with a view to raise efficiency and compliance should dominate the tax reform agenda. Combating tax evasion and broadening the tax base is advocated in several countries. Recommendations to eliminate inefficient and often regressive tax exemptions are frequent: for example, deductions for mortgage interest for owner-occupied housing in income taxation (e.g. in the United States). Countries have been relatively unsuccessful at tackling those tax loopholes, which probably reflects political economy obstacles, i.e. opposition by those who benefit from such loopholes. Efforts should be stepped-up, not least because associated changes will probably require incremental implementation. Reforms in this area would in most cases have beneficial equity and fiscal effects.

Efficiency of public spending

Fiscal pressures will build up in several areas over the coming decades. This reflects the high debt levels inherited from the crisis, unfavourable demographics, and rising spending pressures in areas like health and education (OECD, 2014a). Governments will increasingly face the challenge of providing adequate public services while containing tax pressures. This requires reforms to increase efficiency in the delivery of public services. Against the background of budgetary pressures, the pace of reforms has remained strong in this area across the OECD (see Figure 1.4). Reflecting the size of associated long-term challenges, policy efforts need to be pursued over an extended period of time, which also requires careful monitoring and evaluation.

Reforms to raise overall public sector efficiency cover different areas (Table 1.8). Improving monitoring mechanisms of public sector performance (e.g. Finland) and the efficiency of public procurement rules (e.g. Denmark) are frequent recommendations. Some countries (e.g. Greece) need to focus on improving the efficiency of public administration, which can be achieved by well-designed staff performance evaluation systems but also by expanding e-government.

Increasing cost-efficiency in the healthcare sector is a common challenge in the context of future spending pressures, but in some countries the scope for improvement is particularly large and requires priority action (Table 1.8). Reforms to improve hospital efficiency and care management incentives can keep healthcare costs under control (New Zealand, Switzerland and the United Kingdom). High private costs and low coverage of health insurance has been the main issue in the United States. This has been an area of major reform action by the current administration. Policies need now to ensure that the provisions of the Affordable Care Act are effectively implemented and their impact

Table 1.8. **Efficiency of taxation and public spending/services**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Tax system – structure and efficiency																						
Shift the tax burden from personal income taxes toward consumption, immovable property and the environment		✓	✓	✓		✓		✓	✓		✓	✓	✓		✓				✓		✓	
Shift the tax burden from corporate income taxes toward consumption, immovable property and the environment	✓			x				✓												✓		
Broaden the tax base – reduce tax expenditures	✓	✓		✓				✓	✓		✓	✓	✓						✓	✓		
Combat tax evasion/tax base erosion/raise efficiency of tax collection	✓													✓					✓			
Reduce distortions and fragmentation of the tax system									✓			✓							✓			
Efficiency of public spending and services																						
Enhance the efficiency of public administration														✓	✓							
Expand e-government services														✓								
Improve monitoring, performance evaluation or benchmarking mechanisms											✓			✓		✓						
Enhance efficiency and transparency of public procurement			✓					✓							✓							
Increase cost-efficiency in the healthcare sector											✓											
Reduce inequalities in access to public healthcare	✓																					
Encourage the adoption of more healthy lifestyles																						

Table 1.8. **Efficiency of taxation and public spending/services** *(cont.)*

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Tax system – structure and efficiency																						
Shift the tax burden from personal income taxes toward consumption, immovable property and the environment					✓					✓	✓						✓			✓		
Shift the tax burden from corporate income taxes toward consumption, immovable property and the environment											✓											
Broaden the tax base – reduce tax expenditures		✓		✓						✓	✓	✓		✓			✓					
Combat tax evasion/tax base erosion/raise efficiency of tax collection														✓						✓		
Reduce distortions and fragmentation of the tax system				✓										✓	✓					✓		
Efficiency of public spending and services																						
Enhance the efficiency of public administration																						
Expand e-government services																						
Improve monitoring, performance evaluation or benchmarking mechanisms																						
Enhance efficiency and transparency of public procurement																						
Increase cost-efficiency in the healthcare sector			✓								✓		✓	✓								
Reduce inequalities in access to public healthcare			✓											✓								
Encourage the adoption of more healthy lifestyles			✓																			

monitored. Public healthcare challenges can thus be much broader than issues of cost control. In particular, inequalities in health outcomes and in access to public services are major challenges for New Zealand, and this requires prevention efforts to change lifestyles.

Provision and regulation of public infrastructure

Infrastructure development has been lagging behind GDP in a number of emerging-market economies, contributing to slower potential growth. BRIICS countries are signalling strong and rising reform responsiveness in this area (Figure 1.4) and such efforts must be pursued. Encouraging investment is still needed to boost physical capital and narrow the productivity gap (Brazil, Colombia, India, Indonesia and Latvia). Reforms should address both physical and regulatory bottlenecks in infrastructure (Table 1.9). This would help to attract private investment and optimise use. Specific recommendations include: i) streamlining regulatory and land acquisition processes (India); ii) ensuring regulatory bodies' management transparency (Latvia); and iii) promoting more private-sector participation in infrastructure through regular concessions and PPPs (Brazil and Indonesia), based on prior cost-benefit analysis (Colombia).

Enhancing capacity and regulation of infrastructure is a priority in some advanced countries. The emphasis is on addressing infrastructure shortages in a cost-effective way, in the area of transport (Australia and the United Kingdom), energy (Estonia) or both (Poland). Reforms in this area also need optimising the use of infrastructure. This can be achieved through pricing mechanisms such as congestion charges (New Zealand and the United Kingdom) or carbon prices (Poland).

Legal infrastructure and the rule of law

Not only physical but also legal infrastructure bottlenecks hamper potential growth, especially in emerging-market countries (Table 1.1). The "rule of law" is essential for economic growth (Glaeser et al., 2004; Acemoglu et al., 2001; 2005; Johnsson et al., 2005; Djankov et al., 2002); this encompasses different dimensions such as: i) the provision of security of person and of property; ii) the enforcement of contracts; and iii) checks on government as well as on corruption and private capture. Recent evidence also shows that the effective provision of security ("law and order") has strong correlation with the volatility of growth. Better enforcement of the rule of law – implying stronger judiciary independence or an overall strengthening of institutions – is a policy priority for China, Indonesia, Mexico, the Russian Federation and the Slovak Republic (Table 1.9). Reforms in this area would also help to fight corruption, a related obstacle for growth in these countries.

Financial markets regulation and supervision[54]

Even though the role and desirable size of the financial-sector for economic growth is being reconsidered in light of the crisis,[55] further development and reform of the sector is clearly needed in emerging-market countries, in particular Brazil, China and India. The emphasis of previous reforms in these countries has been on promoting financial market liberalisation, but further reforms are needed, to support liberalisation with strong macro prudential regulation and supervision. In China, the banking sector is subject to stringent control, while grassroots liberalisation brought to life numerous competitors exempt from such regulations. Priority should thus be given to striking a better balance between liberalisation and regulation in financial markets, by e.g. removing implicit state guarantees to allow for better pricing of risk.

Table 1.9. **Physical and legal infrastructure and financial markets regulation and supervision**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Provision and regulation of public infrastructure																					
Raise public and private investment in infrastructure																					
Promote private sector participation/concessions/PPPs	✓																				
Simplify the regulatory approval process of infrastructure projects																					
Enhance capacity/quality in transport/connectivity																					
Enhance capacity/quality in energy/connectivity								✓	✓												
Introduce/increase/reform price signals/congestion charges and user fees	✓							✓													
Legal infrastructure and the rule of law																					
Reinforce judiciary independence and accountability																					
Reduce the scope for public officials' interference in decision-making processes/corruption																					
Financial markets regulation and supervision																					
Encourage private participation in financial markets/gradually reduce state intervention while ensuring strong prudential regulation																					
Strike a better balance between liberalisation and regulation in financial markets																					

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Provision and regulation of public infrastructure																						
Raise public and private investment in infrastructure					✓								✓		✓		✓	✓	✓	✓		
Promote private sector participation/concessions/PPPs													✓		✓		✓		✓			
Simplify the regulatory approval process of infrastructure projects																		✓		✓		
Enhance capacity/quality in transport/connectivity					✓										✓					✓		
Enhance capacity/quality in energy/connectivity					✓										✓		✓					
Introduce/increase/reform price signals/congestion charges and user fees			✓		✓								✓									
Legal infrastructure and the rule of law																						
Reinforce judiciary independence and accountability	✓						✓														✓	
Reduce the scope for public officials' interference in decision-making processes/corruption							✓									✓			✓		✓	
Financial markets regulation and supervision																						
Encourage private participation in financial markets/gradually reduce state intervention while ensuring strong prudential regulation															✓			✓				
Strike a better balance between liberalisation and regulation in financial markets																✓						

Notes

1. Financial market regulation does not generally feature prominently among country-specific priorities, owing to the particular need for strong international co-ordination in this area (see OECD, 2011a, 2012a).
2. See the OECD Initiative on Inclusive Growth, a project which seeks to better identify and understand policies that can deliver improvements in aspects of living standards that aside from income and its distribution matter for people's quality of life (e.g. health, jobs, skills, and the environment). It contributes to the OECD initiative on "New Approaches to Economic Challenges" (NAEC), an organisation-wide reflection exercise launched at the 2012 OECD Ministerial Council Meeting (MCM) to bring continuous improvements to the organisation's analytical frameworks and advice (*www.oecd.org/inclusive-growth*).
3. The country notes (Chapter 5) provide detail on actions taken on areas identified as priorities in *Going for Growth*. An attempt is made to maximise timeliness in the assessment of reform responsiveness. This chapter covers actions taken until the end of 2014.
4. A similar picture emerges from a survey carried out by the Business and Industry Advisory Committee to the OECD (BIAC) in its Member and Observer organisations – i.e. the major national business and employer organisations in OECD countries and a few major non-OECD economies. National business and employer organisations participated from 23 respondent countries: Brazil, Canada, Chile, China, the Czech Republic, Denmark, Finland, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, the Netherlands, New Zealand, Poland, the Russian Federation, Slovenia, South Africa, Spain, Turkey, and the United Kingdom. As of February 2014, BIAC Member/Observer organisations perceive a significant shortfall in countries' implementation of 2013 *Going for Growth* priorities. Respondents perceive full implementation for only 4% of reform priorities, in line with the current finding that policy action has often been piecemeal and would rarely imply the removal of the corresponding priority. The majority of reform priorities are perceived to be partly implemented (61%) while 35% are considered to have not been implemented at all.
5. This confirms the initial findings from the *Going for Growth – Interim Report* published in 2014 (OECD, 2014b). This is also in line with recent findings for EU countries, as reported in a detailed survey of structural reforms in the EU over the period 2008-14 (European Commission, 2014a).
6. See Chapter 2 of *Going for Growth 2013* (OECD, 2013a) for a full assessment of the effects of *Going for Growth* priorities on fiscal balances.
7. The authors use a dynamic stochastic general equilibrium model calibrated to match the salient features of the euro area economies. The model implies that in a crisis that pushes the nominal interest rate to its lower bound, reforms that increase competition in product and labor markets do not support economic activity in the short run and may well be contractionary. Absent the appropriate monetary stimulus, reforms fuel expectations of prolonged deflation, increase the real interest rate, and depress aggregate demand.
8. See Chapter 4 of *Going for Growth 2012* (OECD, 2012a) for an assessment, based on detailed findings in Bouis et al. (2012). This assessment was confirmed recently by analysis conducted on the basis of a 2-sector multi-region (reforming euro area region, rest of euro area, rest of world) macroeconomic model (Vogel, 2014). The European Commission model (QUEST) is used to analyse the impact of structural reforms on economic activity in a macroeconomic environment in which the zero-bound constraint on monetary policy rates is temporarily binding. The simulations suggest that the short-term output response to reforms can indeed be negative, but such negative effects are, however, small and rather short-lived in the model.
9. Recent EU reports provide a detailed survey of reform action in the European Union. First, European Commission (2014a) delivers a detailed review of structural reforms across all policy areas over the period 2008-14. Second, European Commission (2014b) focuses on product market reforms initiated over the last years in Italy, Spain, Portugal and Greece. Such report describes the reform process and presents a number of relevant monitoring indicators on the take-up of product market reforms, with a view to assessing reform implementation and short-term effectiveness.
10. For evidence and discussion on recent implementation issues in euro area periphery, see e.g. *OECD Economic Surveys: Italy* (OECD, 2013b, 2015), *OECD Economic Surveys: Greece* (OECD, 2013b) and *OECD Economic Surveys: Spain* (OECD, 2014c). See discussion on take-up and implementation issues in the area of product market reforms in recent a EU-led survey (European Commission, 2014b).
11. See also Brandolini (2014) for a focus on recent Italian data pointing to alarming increases since 2007 in both relative and absolute poverty.

12. Large increases in disposable income inequality since 2007 have also been taking place in France, Hungary and the Slovak Republic. Large increases in poverty since 2007 have also been taking place in Mexico and Turkey. See OECD (2014d) for details.

13. See Chapter 2 in this report and Causa et al. (2014).

14. See next section on reform priorities and OECD (2014a).

15. The use of private providers in delivering job-search assistance might not always be more cost-effective than the use of public providers and might lead to "creaming" of job-seekers. Associated reforms should thus be closely evaluated.

16. See the next section on policy priorities and country notes (Chapter 5).

17. See Cournede et al. (2013) for an assessment of the choice of consolidation instruments against the adverse side-effects of fiscal adjustment on other policy objectives. Fiscal consolidation instruments are analysed for the likely severity of their side effects on growth and the income distribution. Raising revenues by stepping up consumption taxes may raise disposable income inequality because such taxes fall more heavily on lower-income households.

18. This is especially true for labour utilisation-enhancing priorities since the majority of recommendations are aimed at reducing those countries' large labour productivity gaps (see next section). As a result, Figure 1.4 displays a smaller selection (on the basis of representativeness) of policy areas among the BRIICS than in the OECD.

19. See also Annex 1.A1 of OECD (2013a).

20. The above-cited BIAC survey also provides a set of reform priorities. Differences with *Going for Growth* priorities include: i) overall, higher prevalence of labour utilisation-enhancing priorities according to OECD analysis, while businesses' priorities are largely oriented towards boosting productivity; ii) among labour-utilisation enhancing priorities, stronger emphasis on wage formation and minimum wage priorities according to businesses' views and on job protection priorities according to OECD analysis; and iii) among labour-productivity enhancing priorities, stronger emphasis on public sector efficiency and infrastructure priorities according to businesses' views and on human capital and agricultural support priorities according to OECD analysis.

21. For the purpose of this section, non-OECD countries include the BRIICS as well as Colombia and Latvia.

22. This analysis relies on Chapter 1 of *OECD Employment Outlook 2014* (OECD, 2014e).

23. This analysis is based on projections laid-out in OECD (2014a).

24. In-work benefits that permanently increase net earnings in part-time work make transitions from unemployment to part-time work more attractive and also make transitions from part-time work to full-time work less attractive. They similarly change incentives for working in jobs with relatively low hourly rates of pay. This reduces unemployment but possibly also average productivity. In-work benefits need to be carefully designed, to avoid spikes in marginal effective tax rates that apply over a wide income range.

25. Recent work based on household data suggests that joint taxation of spouses discourages female labour supply (Kabatek et al., 2014). Switching to independent taxation affects spouses' time allocation: in particular such reform increases the wife's labour supply and reduces her housework.

26. Such recommendations are in line with the wider OECD work on gender, such as stated by the OECD Council on Gender Equality in Education, Employment and Entrepreneurship (29 May 2013 – C/MIN(2013)5/FINAL – C/M(2013)12).

27. See Chapter 3 of OECD (2013e) for a summary of recent country-specific reviews in the area of ALMPs.

28. See also French and Song (2014).

29. Reforms to activate recipients of benefits that previously were not conditional on availability for work (such as those on disability benefits) require care and may take time to show up in higher employment rates for these groups. Activation requirements may be targeted on new claimants to test and refine new provisions and only extended later. This reduces the risk that such reforms result in a build-up of long-term unemployment. See Chapter 2 in OECD (2013e).

30. See Chapter 2 in OECD (2013e) for a detailed review of reforms in the area of employment protection over the last decade.

31. Duality leads to labour and capital misallocation as well as to under-investment in training for temporary workers, hence ultimately to lower productivity (Bassanini et al., 2009; Cingano et al., 2010; Lepage et al., 2012; Bentolila et al., 2012; Blanchard and Landier, 2002). The costs of duality are high: excess employment volatility, reduced access to stable jobs, recurrent spells of temporary jobs, and long and frequent unemployment spells among "marginal workers" under temporary or atypical contracts, essentially youth.
32. See OECD (2013e), Chapter 2. For employers, complex or time-consuming legal processes can add significantly to the cost of hiring and especially dismissing workers. But equally, if it is difficult or costly for employees to pursue cases of unfair dismissal, they might be exposed to arbitrary actions from employers.
33. See OECD (2014e). In addition, this can be achieved by lowering social security contributions at the minimum wage, as recommended among *Going for Growth* priorities in the area of labour tax wedges (see Table 1.2).
34. This needs being qualified. Assuming that inexperienced workers are less productive than more experienced workers, it follows that subminima should apply to anybody with little experience in the labour market, including those who have been out of employment for a long time, regardless of age. Targeting the minimum wage on age rather than on recent experience would create an unlevelled playing field with other workers, in particular more mature long-term unemployed for whom finding a job would become even more difficult.
35. Well-designed in-work benefits schemes that complement moderate minimum wage can be more effective in reducing in-work poverty and fostering incentives to work than a high minimum wage, as these schemes are better targeted on the most disadvantaged working households.
36. (OECD, 2013a.) See also OECD (2014f) for an initial evaluation of the comprehensive reform of the Spanish labour market undertaken in 2012.
37. See OECD (2014f) for a detailed assessment in the Spanish case.
38. Inflation is so low in some countries that the only way for reductions in real wages to occur is when nominal wages are cut. Workers and employers are generally reluctant to countenance such reductions, leading to "nominal downward wage rigidity". Nominal wager rigidity has become more binding since the start of the countries in countries such as Estonia, Greece, the Netherlands, Spain and the United Kingdom. See OECD (2014e).
39. See evidence and discussion in Chapter 2 of OECD (2014e).
40. For presentational purposes, they are discussed in the sub-section on labour utilisation.
41. Such assets have been classified more formally under three broad categories, i.e. computerised information, innovative property and economic competencies. See Andrews and de Serres (2012).
42. See Barone and Cingano (2011), Bourlès et al. (2010), Conway et al. (2006), Bas and Causa (2012), Andrews and Criuscolo (2013).
43. Recent empirical analysis has delivered fresh evidence that product market reforms can also increase the returns to education. Such result is obtained at the micro-level based on the recent 2005 Portugal "On the Spot Firm" reform, which reduced the time, cost and complexity of starting a business by establishing one-stop shops where an entrepreneur can register a company in less than an hour in one single office (Fernandes et al., 2014); the reform increased returns to skills in addition to boosting firm creation and reducing industry concentration.
44. Bourlès et al. (2010) simulate average annual gains in MFP growth between 0.2 and 1.7 percentage points within the five years period following reforms to adopt best practice (upstream) regulations.
45. Recent work by the European Commission attempts at assessing the effects of recently-introduced product market reforms in Greece, Italy, Portugal and Spain (European Commission, 2014b). Early adjustment signs are estimated by using short-term monitoring indicators such as firm entry rates and firm registrations by sector and the length of insolvency proceedings. The analysis suggests that encouraging signs are already visible, especially in Spain and Portugal.
46. The proposed indicator sheds light on some areas that could benefit from policymakers' attention in designing future environmental policy proposals or seeking to reform existing setups. The indicator is referred to as "Burdens on the Economy due to Environmental Policies, or BEEP" (see Kozluk, 2014).

47. The economic literature has traditionally defended a reform sequencing where product market liberalisation would ideally precede labour market reform. Theoretical models and empirical results suggest that in the presence of both rigid product and labour markets, reforming product markets first may likely have a large payoff and could also facilitate subsequent labour market reforms. See inter aliia Blanchard and Giavazzi (2003).

48. Bouis et al. (2011), Andrews and Criuscolo (2013), Andrews and Cingano (2012), Bas et al. (2013), Fernandes and Paunov (2012).

49. See Moise and Sorescu (2013) for a comprehensive study on the effects of trade facilitation. The study provides an assessment of the impact of specific trade facilitation measures on countries' trade. This assessment is based on Trade facilitation Indicators (TFIs) developed at the OECD. Such indicators cover the main policy areas under negotiation at the WTO and are aimed at estimating the impact of addressing country-specific specific hurdles to trade and border procedures.

50. This refers to the year 2009. *OECD-WTO Database* on Trade in Value-Added (TiVA).

51. See OECD (2014a). Property taxes have additional benefits. Recent empirical evidence suggests that a greater reliance on property taxes pertaining to sub-national governments contributes to fiscal discipline (Presbitero et al., 2014). This is likely to reflect the relative advantage of this form of taxation in promoting the accountability, responsibility and discipline of sub-national authorities with respect to other forms of local revenues (e.g. income taxes or sales taxes).

52. Associated challenges are presented and discussed in OECD (2014a).

53. In particular, there may be increasing instances of multinational enterprises using cross-border tax strategies to shift profits generated by KBC across countries. Recent OECD work highlights the potential benefits of international co-operation to limit unintended tax relief for R&D stemming from cross-border tax planning (OECD, 2013k). More broadly, see OECD work on Base Erosion and Profit sharing (BEPS).

54. As mentioned in the introduction, financial market reform has generally not featured prominently among country-specific priorities, owing to the particular need for strong international co-ordination in this area. The European Union introduced substantial reform initiatives in banking supervision and resolution, and this is therefore no longer considered as an area for reform priority (see EU country note and euro area survey for in-depth analysis, OECD, 2014h).

55. See *inter alia* Cournède and Denk (2014), Cecchetti and Karrubi (2012) and Arcand et al. (2012).

Bibliography

Acemoglu, D. and S. Johnson (2005), "Unbundling institutions", *Journal of Political Economy*, Vol. 113(5), pp. 949-995.

Acemoglu, D., S. Johnson and J. Robinson (2001), "The colonial origins of comparative development: An empirical investigation", *American Economic Review*, Vol. 5, pp. 1369-1401.

Albrizio, S., E. Botta, T. Kozluk and V. Zipperer (2014), "Environmental Policies and Productivity Growth – Insights from New Cross-Country Measures of Environmental Policies", OECD, Paris, forthcoming.

Andrews, D. and F. Cingano (2012), "Public Policy and Resource Allocation: Evidence from Firms in OECD Countries", *OECD Economics Department Working Papers*, No. 996, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k9158wpf727-en*.

Andrews, D. and C. Criscuolo (2013), "Knowledge-Based Capital, Innovation and Resource Allocation: A Going for Growth Report", *OECD Economics Department Working Papers*, No. 1046, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k46bh92lr35-en*.

Andrews, D. and A. de Serres (2012), "Intangible Assets, Resource Reallocation and Growth: A Framework for Analysis", *OECD Economics Department Working Papers*, No. 989, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k92s63w14wb-en*.

Arcand, J.L., E. Berkes and U. Panizza (2012), "Too Much finance?", *IMF Working Paper*, No. WP/12/161.

Arnold, J. et al. (2011), "Tax Policy for Economic Recovery and Growth", *The Economic Journal*, Vol. 121, pp. F59-F80.

Autor, D.H., W.R. Kerr and A.D. Kugler (2007), "Do Employment Protections Reduce Productivity? Evidence from US States", *The Economic Journal*, Vol. 117, pp. F189-F217.

Barone, G. and F. Cingano (2011), "Service Regulation and Growth: Evidence from OECD Countries", *The Economic Journal*, Royal Economic Society, Vol. 121(555), pp. 931-957.

Bas, M. and O. Causa (2012), "Trade and Product Market Policies in Upstream Sectors and Productivity in Downstream Sectors: Firm-level Evidence from China", *OECD Economics Department Working Papers*, No. 990, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k92pgjgll7l-en*.

Bassanini, A. and A. Garnero (2013), "Dismissal Protection and Worker Flows in OECD Countries: Evidence from Cross-country/Cross-industry Data", *Labour Economics*, Vol. 21(1), pp. 25-41.

Bassanini, A., L. Nunziata and D. Venn (2009), "Job Protection Legislation and Productivity Growth in OECD Countries", *Economic Policy*, Vol. 24, No. 58, pp. 349-402, April.

Bentolila, S. et al. (2012), "Two-tier Labor Markets in the Great Recession: France vs. Spain", *The Economic Journal*, Vol. 122, Issue 562, pp. F155-187.

Blanchard, O. and A. Giavazzi (2003), "Macroeconomic Effects of Regulation and Deregulation in Goods and Labour Markets", *The Quarterly Journal of Economics*, pp. 879-906.

Blanchard, O. and A. Landier (2002), "The Perverse Effects of Partial Labour Market Reform: Fixed-Term Contracts in France", *The Economic Journal*, Vol. 112, No. 480, pp. F214-F244.

Boeri, T., P. Garibaldi and E. Moen (2013), "The Economics of Severance Pay", *IZA Discussion Paper*, No. 7455.

Bouis, R., O. Causa, R. Duval and L. Demmou (2012), "How Quickly Does Structural Reform Pay Off? An Empirical Analysis of the Short-term Effects of Unemployment Benefit Reform", *IZA Journal of Labor Policy*, 2012, pp. 1-12.

Bouis, R., R. Duval and F. Murtin (2011), "The Policy and Institutional Drivers of Economic Growth Across OECD and Non-OECD Economies: New Evidence from Growth Regressions", *OECD Economics Department Working Papers*, No. 843, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5kghwnhxwkhj-en*.

Boulhol, H. (2009), "The Effects of Population Structure on Employment and Productivity", *OECD Economics Department Working Papers*, No. 684, OECD Publishing, Paris, *http://dx.doi.org/10.1787/225644583654*.

Bourlès, R. et al. (2010), "Do Product Market Regulations in Upstream Sectors Curb Productivity Growth? Panel Data Evidence for OECD Countries", *OECD Economics Department Working Papers*, No. 791, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5kmbm6s9kbkf-en*.

Brandolini, A. (2014), "Il Grande Freddo. I bilanci delle famiglie italiane dopo la Grande Recessione", in *Politica in Italia. I fatti dell'anno e le interpretazioni*, Edition 2014, edited by C. Fusaro and A. Kreppel, Bologna, Il Mulino, 2014.

Causa, O., S. Araujo, A. Cavaciuti, Nicolas Ruiz and Zuzana Smidova (2014a), "Economic Growth from the Household Perspective: GDP and Income Distribution Developments Across OECD Countries", *OECD Economics Department Working Papers*, No. 1111, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz5m89dh0nt-en*.

Causa, O., A. de Serres and N. Ruiz (2014b), "Can Pro-Growth Policies Lift All Boats? An Analysis Based on Household Disposable Income", *OECD Economics Department Working Papers*, OECD, Paris, *www.oecd.org/eco/growth/Can_pro-growth_policies_lift_all_boats_an_analysis_based_on_household_disposable_income.pdf*.

Cecchetti, S.G. and E. Kharroubi (2012), "Reassessing the Impact of Finance on Growth", *BIS Working Papers*, No. 381.

Cingano, F. et al. (2010), "The Effect of Employment Protection Legislation and Financial Market Imperfections on Investment: Evidence from a Firm-level Panel of EU Countries", *Economic Policy*, Vol. 25, Issue 61, pp. 117-163.

Conway, P. et al. (2006), "Regulation, Competition and Productivity Convergence", *OECD Economics Department Working Papers*, No. 509, OECD Publishing, Paris, *http://dx.doi.org/10.1787/431383770805*.

Cournède, B. and O. Denk (2014), "Finance and Economic Growth in OECD and G20 Countries", *OECD Economics Department Working Papers*, OECD Publishing, Paris, forthcoming.

Cournède, B., A. de Serres, A. Goujard and A. Pina (2013), "Choosing Fiscal Consolidation Instruments Compatible with Growth and Equity", *OECD Economic Policy Papers*, No. 7, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k43nxq6dzd4-en*.

Djankov, S., R. La Porta, F. Lopez-de-Silanes and A. Shleifer (2002), "The Regulation of Entry", *The Quarterly Journal of Economics*, Vol. 117(1), pp. 1-37.

Duval, R. (2008), "Is there a role for macroeconomic policy in fostering structural reforms? Panel evidence from OECD countries over the past two decades", *European Journal of Political Economy*, Vol. 24(2), Elsevier, June, pp. 491-502.

Eggertson, G., A. Ferrero and A. Raffo (2014), "Can Structural reforms help Europe", *Journal of Monetary Economics*, Vol. 61(C), pp. 2-22.

European Commission (2014a), *Survey of Economic Reforms at Work in the European Union*.

European Commission (2014b), "Market Reforms at Work in Italy, Spain, Portugal and Greece", *European Economy*, Vol. 5/2014, Economic and Financial Affairs, ISSN 1725-3217.

Fall, F., D. Bloch, P. Hoeller, J. Pareliussen and M. Pisu (2014), "Vulnerability of Social Institutions", *OECD Economic Policy Paper*, No. 11, July 2014, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz158r4q0zn-en*.

Fernandes, A.P., P. Ferreira and L.A. Winters (2014), "Firm Entry Deregulation, Competition and Returns To Education And Skill", *European Economic Review*, Vol. 70, pp. 210-230.

Fernandes, A.P. and C. Paunov (2012), "Foreign Direct Investment in Services and Manufacturing Productivity: Evidence for Chile", *Journal of Development Economics*, Vol. 97, pp. 305-321.

French, E. and J. Song (2014), "The Effect of Disability Insurance Receipt on Labor Supply", *American Economic Journal: Economic Policy*, Vol. 6(2), pp. 291-337.

Glaeser, E., R. LaPorta, R.F. Lopez-de-Silanes and A. Shleifer (2004), "Do Institutions Cause Growth?", *Journal of Economic Growth*, Vol. 9, pp. 271-303.

Haggard, S. and L. Tiede (2011), "The Rule Of Law and Economic Growth: Where Are We?", *World Development*, Vol. 39, No. 5, pp. 673-685.

Haltiwanger, J., S. Scarpetta and H. Schweiger (2006), "Assessing Job Flows Across Countries: The Role of Industry, Firm Size and Regulations", *IZA Discussion Paper*, No. 2450, Bonn.

Hekman, J., L. Lochner and P. Todd (2005), "Earning Functions, Rates of Return, and Treatment Effects: The Mincer Equation and Beyond", *NBER Working Paper*, No. 11544, National Bureau of Economic Research.

IEA (2013), *World Energy Outlook 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/weo-2013-en*.

Johansson, Å. and E. Olaberría (2014), "Global Trade and Specialisation Patterns Over the Next 50 Years", *OECD Economic Policy Papers*, No. 10, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz18gpwfxq4-en*.

Kabatek, J., A. van Soest and E. Stancanelli (2014), "Income Taxation, Labour Supply and Housework: a Discrete Choice Model for French Couples", *Labour Economics*, Vol. 27 pp. 30-43.

Kozluk, T. (2014), "Indicators of Economic Burdens of Environmental Policy Design: Results from the OECD Questionnaire", *OECD Economics Department Working Paper*, No. 1178, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jxrjnbnbm8v-en*.

Lepage-Saucier, N., J. Schleich and E. Wasmer (2013), "Moving Towards a Single Labour Contract: Pros, Cons and Mixed Feelings", *OECD Economics Department Working Papers*, No. 1026, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k4c0vvc4zxv-en*.

Ministero dell'economia e delle finanze (2014), *Economic and financial document – Section III National Reform Programme*, submitted by Prime Minister Matteo Renzi and Minister of the Economy and Finance Pier Carlo Padoan, adopted by the Cabinet on 8 April 2014.

Moïsé, E. and S. Sorescu (2013), "Trade Facilitation Indicators: The Potential Impact of Trade Facilitation on Developing Countries' Trade", *OECD Trade Policy Papers*, No. 144, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k4bw6kg6ws2-en*.

OECD (2015), *OECD Economic Surveys: Italy 2014*, OECD Publishing, Paris, forthcoming.

OECD (2014a), *OECD@100: Policies for a Shifting World*, OECD Publishing, Paris, *www.oecd.org/eco/OECD@100-Policies-for-a-shifting-world.pdf*.

OECD (2014b), *Economic Policy Reforms 2014: Going for Growth – Interim Report*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2014-en*.

OECD (2014c), *OECD Economic Surveys: Spain 2014*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_surveys-esp-2014-en*.

OECD (2014d), "Rising inequality: youth and poor fall further behind", *Insights from the OECD Income Distribution Database*, June 2014, OECD, Paris, *www.oecd.org/els/soc/OECD2014-Income-Inequality-Update.pdf*.

OECD (2014e), *OECD Employment Outlook 2014*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/empl_outlook-2014-en*.

OECD (2014f), *The 2012 Labour Market Reform in Spain: A Preliminary Assessment*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264213586-en*.

OECD (2014g), *OECD Economic Outlook 2014*, Issue 1, No. 94, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_outlook-v2014-1-en*.

OECD (2014h), *OECD Economic Surveys: Euro Area 2014*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_surveys-euz-2014-en*.

OECD (2013a), *Economic Policy Reforms 2013: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2013-en*.

OECD (2013b), *OECD Economic Surveys: Italy 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_surveys-ita-2013-en*.

OECD (2013c), *OECD Economic Surveys: Greece 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_surveys-grc-2013-en*.

OECD (2013d), "Crisis Squeezes Income and Puts Pressure on Inequality and Poverty", *Policy Brief*, OECD, Paris, *www.oecd.org/els/soc/OECD2013-Inequality-and-Poverty-8p.pdf*.

OECD (2013e), *OECD Employment Outlook 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/empl_outlook-2013-en*.

OECD (2013f), *Pensions at a Glance 2013: OECD and G20 Indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/pension_glance-2013-en*.

OECD (2013g), *Education at a Glance 2013: OECD Indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eag-2013-en*.

OECD (2013h), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264204256-en*.

OECD (2013i), *Interconnected Economies: Benefiting from Global Value Chains*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264189560-en*.

OECD (2013j), *Inventory of Estimated Budgetary Support and Tax Expenditures for Fossil Fuels 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264187610-en*.

OECD (2013k), *Supporting Investment in Knowledge Capital, Growth and Innovation*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264193307-en*.

OECD (2012a), *Economic Policy Reforms 2012: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2012-en*.

OECD (2011a), *Economic Policy Reforms 2011: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2011-en*.

OECD (2011b), *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264119536-en*.

OECD (2010a), *Economic Policy Reforms 2010: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2010-en*.

OECD (2010b), *Making Reform Happen: Lessons from OECD Countries*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264086296-en*.

Venn, D. (2012), "Eligibility Criteria for Unemployment Benefits: Quantitative Indicators for OECD and EU Countries", *OECD Social, Employment and Migration Working Papers*, No. 131, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k9h43kgkvr4-en*.

Vogel, L. (2014), "Structural reforms at the zero bound", *European Commission Economic Papers*, No. 537, November 2014.

Economic Policy Reforms 2015
Going for Growth

Chapter 2

The effect of pro-growth structural reforms on income inequality

This chapter reviews the evidence on the potential effect of pro-growth structural reforms on wage dispersion and household income inequality and examines whether specific policies driving GDP growth over the past decades may have also contributed to widening inequalities. In doing so, it distinguishes between the main channels via which policies affect growth and income distribution and identifies policy packages to make growth more inclusive.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Main findings

- Income inequality has increased in a majority of OECD countries since the mid-1990s. Households' disposable income has grown by less than gross domestic product (GDP), and income of the poorest households by less than that of the richest.
- Such trends are largely driven by technological changes, which involve a stronger demand for high-skilled workers. And they are likely to persist in the future.
- Some pro-growth policies that raise GDP through increased productivity may contribute to technology-driven inequality. For instance, reforms that boost innovation widen the wage distribution among employed workers.
- Other policies that promote labour force participation and job creation also widen the wage dispersion. However, because they contribute to raising employment – not least among lower-skilled workers – such reforms have a neutral effect on the dispersion of households' disposable income.
- A number of reforms unambiguously reduce wage dispersion and/or household income inequality. This is the case of better access to education, active labour market policies and growth-friendly tax and transfer systems.
- Overall, many *Going for Growth* recommendations have little or no impact on income inequality among households, even when they widen the wage dispersion, due to offsetting employment effects.
- Given the need in many countries to tackle rising inequalities, priority should be given to policy packages which both reduce income dispersion and boost growth. Especially important is raising the earnings potential of the low-skilled and promoting the labour force participation of women.

Introduction

Going for Growth focuses on maximising GDP per capita. More specifically, the flow of goods and services produced in the economy, as measured by GDP, is chosen as the central objective, even if proxying for only one dimension of wellbeing. At the same time, the OECD has been exploring distributional issues for a number of years (OECD, 2011a, 2013a, 2014a, b). In 2013, the Inclusive Growth Initiative was launched with a view to building a growth strategy that better take into account income distribution as well as other dimensions of wellbeing such as health outcomes. For *Going for Growth*, the focus on GDP is driven by the currently available data and analytical framework, but effects on broader aspects of wellbeing as well as interactions and trade-offs among them are increasingly covered.[1] One question is whether some of the OECD recommendations to foster growth may have unintended adverse consequences on some of these dimensions. As a partial answer to this question, the impact of pro-growth policies on income distribution is examined in this chapter, while Chapter 3 examines the effect on the environment.

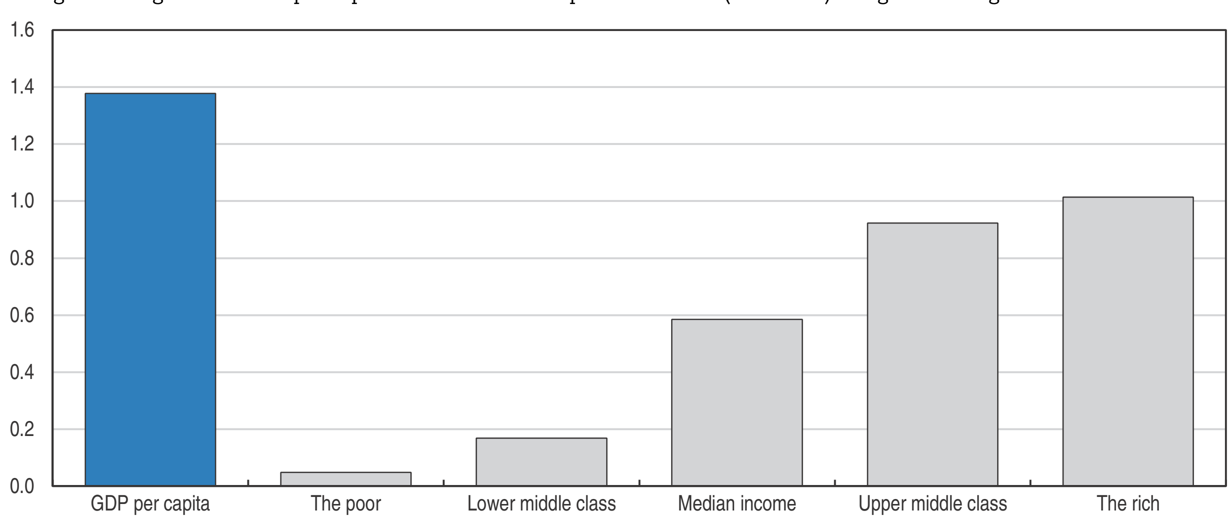
When talking about inequality, it should be kept in mind that a certain degree of income dispersion is a fundamental characteristic of dynamic market economies, which are based on trust, property rights and the rule of law. The notion that one can enjoy the benefits from one's own efforts is a powerful incentive to invest in human capital, new ideas and products, as well as to undertake risky commercial ventures, all of which are key drivers of growth and income generation. However, beyond a certain point, widening income inequalities will undermine the foundations of market economies and adversely feed back into economic growth. Income inequality may also translate into inequality in opportunity which decreases social mobility and weakens incentives to invest in knowledge. The resulting under-investment in, and misallocation of skills, ultimately undermine efficiency and growth potential.

Income inequality has widened across OECD countries

On average across OECD countries and from the mid-1990s to the late 2000s, gains in household disposable incomes have not matched those in GDP per capita and the gap has been particularly large for poorer households and the lower middle class, suggesting that growth has come with rising inequality (Figure 2.1).[2] Indeed, recent studies reported steadily growing income inequalities in a majority of OECD countries during the past three decades (e.g. OECD, 2011c, 2013b, 2014a).[3] Figure 2.2 displays the change in the distribution of household income between mid-1990s and 2011, as measured by the Gini coefficient. The dispersion in market income, i.e. income *before* taxes and transfers–has increased in many advanced OECD countries, while it fell substantially in Turkey and Mexico. Inequality in household disposable income, i.e. *after* taxes and transfers, followed a similar pattern, although it widened by more than market income in countries such as the Nordics, which remain nonetheless among the most egalitarians.

Figure 2.1. **Gains in household disposable incomes have been stronger in the upper half of the distribution**

Average annual growth of GDP per capita and household disposable income (1995-2011): Weighted average over 26 OECD countries



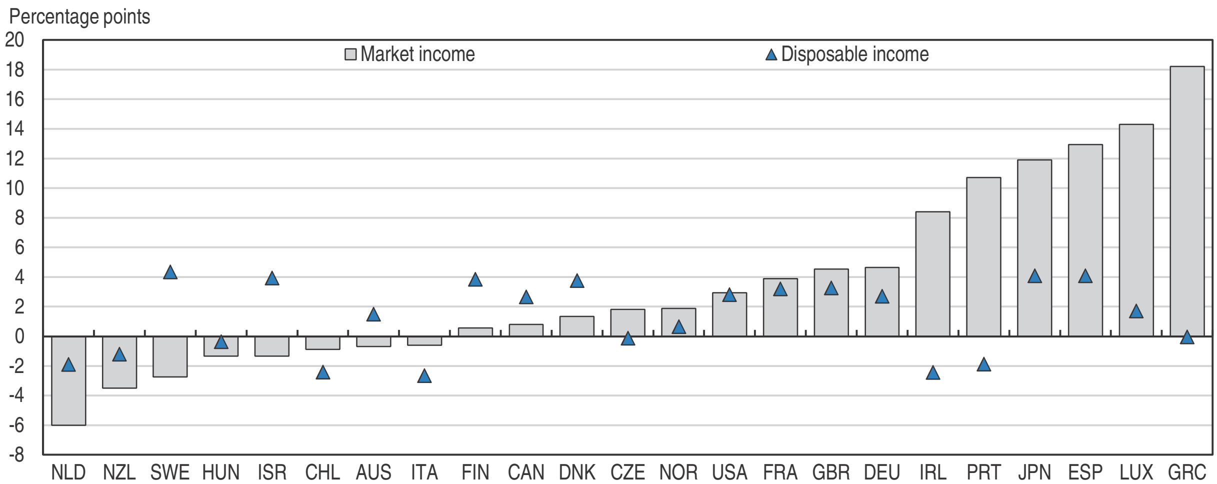
Note: Household disposable incomes at different points of the distribution are measured on the basis of income standards (see Methodological annex to Chapter 5). The average income of the 26 OECD countries is calculated from income data expressed on a per consumption basis in USD 2011 constant prices and 2011 constant PPPs with Purchasing Power Parities for private consumption. The OECD average is calculated using population weights.

Source: OECD, *Income Distribution Database*, *http://dx.doi.org/10.1787/data-00654-en*.

StatLink http://dx.doi.org/10.1787/888933177441

Figure 2.2. **Household income inequality has risen in a majority of OECD countries**

Change in Gini coefficients from the mid-1990s to 2011



Note: The figure displays the changes in Gini coefficients corresponding to inequality in household market and disposable incomes. The period of observation is between 1995 and 2011 except for Australia, Finland, Hungary, the Netherlands and the United States (1995-2012), Chile, the Czech Republic, France and Luxembourg (1996-2011), Greece, Ireland and the United Kingdom (1994-2011) and Japan (1995-2009). The changes in Gini coefficient of market income for Greece, Hungary, Ireland, Luxembourg, Portugal and Spain are based on imputation.
Source: OECD, *Income Distribution Database*, *http://dx.doi.org/10.1787/data-00654-en*.

StatLink http://dx.doi.org/10.1787/888933177458

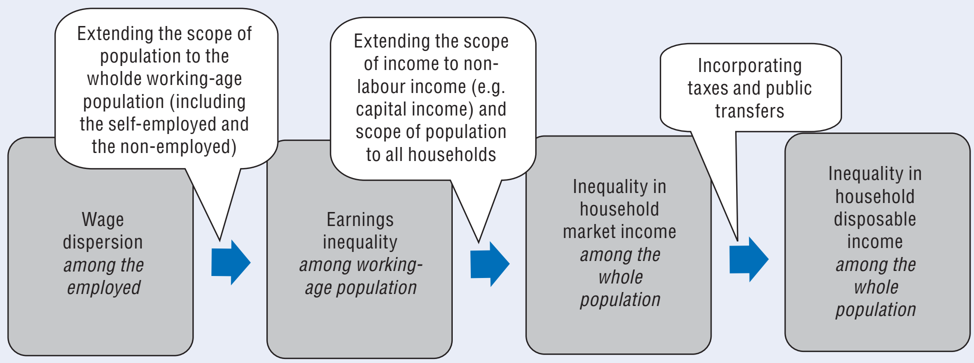
An important policy question is whether some of the forces driving GDP growth – including policy changes – may have also fuelled inequalities. Finding empirical evidence of specific policy trade-offs between growth and a more equal income distribution is not straightforward. Some reasons are methodological: the assessment of inequality depends on *how* inequality is defined (see Box 2.1). In discussing the impact of pro-growth policies on income inequality, this section will mainly refer to three measures of income: individual wages among employed workers, individual labour earnings among the whole working-age population and household disposable income among the entire population.[4]

Similarly, the assessment of inequality also depends on how inequality is *measured*, that is, on how the set of individual incomes is aggregated into an inequality indicator (Box 2.1). In particular, changes in inequality measured by one summary indicator such as the widely-used Gini coefficient can mask diverging developments across different portions of the income distribution. For instance, recent evidence (Causa, de Serres and Ruiz, 2014) suggests that for many OECD countries, income inequality has widened between low and middle-income households, as the gains in disposable incomes have been particularly subdued for poorer households. In Spain, disparities grew among the households in the lower half of income distribution while the Gini coefficient indicates no change in overall inequality. In other countries, such as Australia, the United Kingdom and the United States, inequalities grew within the upper half of income distribution and in particular at the very high-end, as 50 to 60% of total income gains have accrued to the top 1% of households (Piketty and Saez, 2014; OECD, 2014a).

Distinguishing between the different measures and definitions may help to shed light on the channels through which structural reforms influence the income distribution. For instance, the trend rise in household disposable income inequality has its source primarily in an increase in wage dispersion, while rising capital incomes (which tend to be highly concentrated), less redistributive tax and benefit systems and changes in demography and

Box 2.1. **Measuring income inequality**

Different concepts of income inequality can be distinguished, from the least to the most comprehensive, depending on the definition of income and on the population covered (see below):



The least comprehensive concept is the dispersion of wages among individuals currently in employment. Earnings inequality extends the coverage of population by including the income of all individuals in working-age population, which comprises not only the employed but also the self-employed, job-seekers and those not participating in the labour market. Inequality in household market income is a wider concept both in terms of population and income, for it extends the coverage to non-working age population (such as retirees) and also include non-labour market income such as capital income and private transfers. Finally, inequality in disposable household income considers household income after public transfers (such as pension benefits) and taxes.

Structural policies are likely to influence income through different components and to have an impact that varies across segments of the population, insofar as they target different age or gender groups. Furthermore, some structural reforms, such as measures to liberalise foreign trade and investment, are likely to affect the entire population, because they would operate not only via the earnings channel for those in age of working, but also via the price channel for all age groups (for instance, by lowering the price of available goods and services) and the increase in product variety.

Several summary measures can be used to assess the overall shape of an income distribution:

- *Gini index* (or coefficient): measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of zero represents perfect equality and an index of one, extreme inequality (where one individual or household would get all income in the economy).
- *The P90/P10 inter-decile ratio:* is the ratio of the upper-bound value of the ninth decile to that of the first.
- *The P50/P10 inter-decile ratio:* is the ratio of median income to the upper-bound value of the first decile.

The Gini index is the most popular measure due to its wide availability and comparability across country and overtime. While the rankings of a country may be altered depending on the specific inequality measure used, very high cross-country correlations between each of these alternative inequality measures and the Gini index are observed for OECD countries (OECD, 2008). However, the Gini index lacks granularity for characterising information about inequality across different subsets of the income distribution. This can be overcome by relying on income standards, as shown in Causa, de Serres and Ruiz (2014).*

* See the methodological note of Chapter 5 (Country notes) on the concept and use of income standard.

household formation patterns have also contributed, albeit more modestly (OECD, 2008, 2011c).[5] The increase in wage dispersion, in turn, can be explained to some extent by the acceleration of skill-biased technological change (SBTC) which is only partly mitigated by rising educational attainments (Autor, 2014; OECD, 2011c).

Assuming that technological progress will continue at a similar pace in the future, there is little reason, under the current policy stance, to expect a halt in the trend towards higher wage dispersion (let alone a reversal). If anything it may intensify, as the effectiveness of education in increasing the relative supply of skilled workers diminishes, given that the share of population with higher-educational attainment is unlikely to continue rising as rapidly in the future. In fact, the *OECD 50-Year Global Scenario* suggests that wage inequality could grow by between 17% and 40% within the OECD countries by 2060 if the same trend of SBTC observed over the past 25 years persists (OECD, 2014b).[6] Under such a scenario, low inequality countries like Norway, Sweden and Switzerland, will see inequality levels similar to the OECD average today, whereas the OECD average will get closer to today's US level. Virtually all increases in inequality would take place between high- and medium-income earners, in line with recent evidence suggesting that technology increasingly replaces medium-skilled jobs (Braconier and Ruiz-Valenzuela, 2014; Goos et al., 2010).

Pro-growth reforms often contribute to higher wage dispersion

Against this background, there is risk that structural reforms that boost productivity growth by enhancing competition, investment in knowledge-based capital (KBC) and innovation contribute to higher wage dispersion among workers through faster SBTC. For instance, recent empirical evidence (OECD, 2011c, 2012; Braconier and Ruiz-Valenzuela, 2014) suggests that reducing regulatory barriers to product market competition can increase wage dispersion. This finding is in line with views that fiercer competition encourages firms to invest in KBC, which increases the demand for specific skills but render others obsolete.[7] Stronger competition can also reduce the bargaining power of labour unions in formerly protected sectors, resulting in wider wage dispersion (see Table 2.1).[8] Finally, the same studies have reported that higher R&D spending is associated with larger wage dispersion.

Some labour market and income support reforms aimed at fostering employment by raising incentives to work and to hire can also result in a wider wage distribution among those employed. For example, lowering the minimum wage or reducing the unemployment benefit replacement rate as well as easing the stringency of employment protection may lead to higher wage dispersion by reducing the reservation wage and by increasing the creation of low-paid jobs (OECD, 2011c). The adverse distributional effects from such reforms are however more likely to be concentrated in the lower half of the wage distribution (OECD, 2011c; Koske et al., 2012; Braconier and Ruiz-Valenzuela, 2014).

Other pro-growth reforms can reduce wage dispersion. As mentioned above, there is fairly widespread evidence that more education is associated with smaller wage dispersion (OECD, 2011c; Koske et al., 2012; Braconier and Ruiz-Valenzuela, 2014). As a result, reforms that enhance provision, access and quality of basic education as well as higher education are expected to reduce wage inequality by increasing the supply of skilled workers. In a similar vein, increasing the provision or the effectiveness of active labour market policies (ALMPs) can also mitigate rising wage inequality, insofar as such policies encourage jobseekers' up-skilling through training programmes – an argument which can be extended to policies oriented towards lifelong learning. However, because education

Table 2.1. **The impact of pro-growth policies and structural forces on wage dispersion and employment**

A pro-growth change in:	Effect of change on:		
	Wage dispersion	Employment	Overall earnings inequality
Labour market policies			
Easing Employment Protection Legislation (EPL) (overall protection)	+	=/+	=/+
Easing EPL (reducing duality)	-	+	-
Lowering minimum wage	+	=/+	=
Lowering unemployment benefit replacement rate	+	+	=
Strengthening active labour market policies (ALMPs)	=	+	-
Lowering labour tax wedges	+	+	-/=
Removing barriers to female labour force participation	-	+	-
Innovation and technology			
Technical progress (higher MFP)	+	=	+
Higher R&D intensity	+	=	+
Globalisation			
Deeper trade integration	=	=	=
Higher FDI openness	=	=	=
Education/human capital			
Higher share of skilled workers	-	+	-
Product market competition			
Lowering regulatory barriers to entry	+	+	=

Note: "+" represents increase in the variable whereas. "-" represents decreases. "=" corresponds to the cases where the net impacts are unclear.
Sources: Braconier and Ruiz-Valenzuela (2014); Koske et al. (2012); OECD (2011c).

reforms take more time to bear fruit than measures in other areas, on balance *Going for Growth* recommendations are more likely to put additional pressures on wage dispersion, at least in the short term (see Table 2.1, column 1).

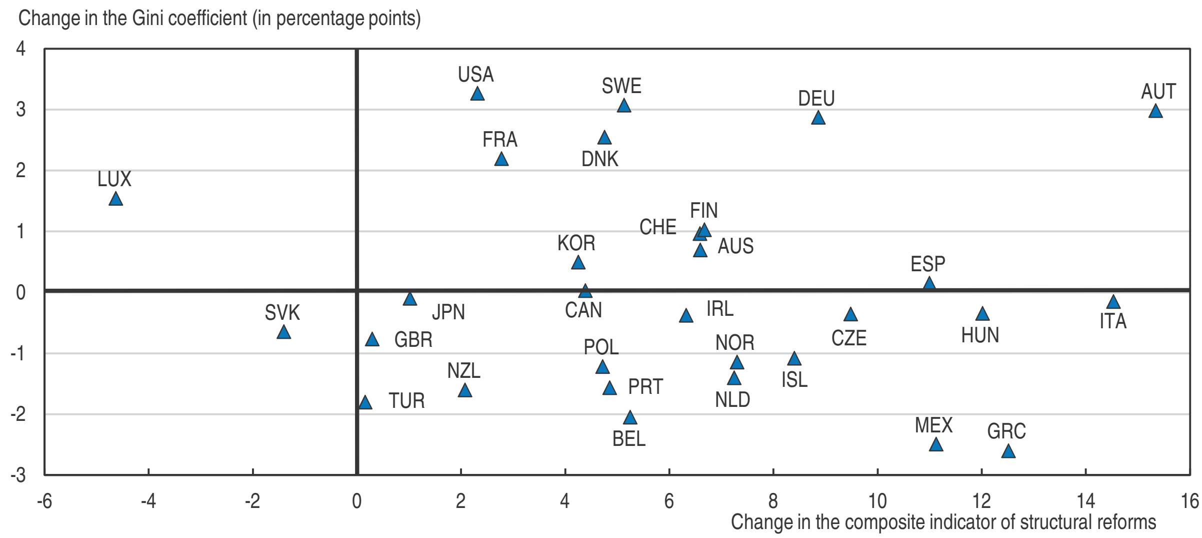
Pro-growth reforms can reduce income inequality via employment gains

Higher wage dispersion among workers does not necessarily translate into wider income inequality among the broader working-age population (i.e. including both employed and non-employed). This is because the effects of growth-oriented reforms on earnings dispersion operate through two offsetting channels: they increase the dispersion of wages among those who are in employment, but they also improve the employment opportunities of those looking for a job, which reduces the inequality in earnings among the whole working-age population. The consequence of pro-growth structural reforms on inequality therefore depends on the relative size of the two effects, which is not clear *a priori*. Indeed, a look at the change in inequality against a composite indicator of progress in structural reforms suggests the absence of a clear relationship, at least on the basis of a simple bilateral correlation (Figure 2.3).[9]

Table 2.1 provides a brief summary of the main findings from various empirical studies on the link between structural settings and earnings inequality; hence it focuses on wage dispersion and employment effects, and their combined effect on overall earnings inequality. Indeed, the net impact of reforms on earnings inequality depends to a large extent on the strength and interplay between the employment and wage channels. Table 2.2 summarises in a qualitative manner the effect of the main *Going for Growth*

Figure 2.3. **No systematic relationship between the pace of structural reforms and income inequality**

Selected OECD countries, 2000-11



Note: The index of structural reform is measured by the change in the composite indicator constructed in Chapter 1 (see Box 1.2). The Gini coefficient is measured on the basis of household disposable income. The period of observation is between 2000 and 2011 except for Australia, Hungary, Mexico and the Netherlands (2000-12), Austria and Greece (1999-2011), Switzerland and Luxembourg (2001-11), the Czech Republic (2002-11), Iceland, the Slovak Republic and Turkey (2004-11), Japan (2000-09) and Korea (2006-11).

Source: OECD, *Income Distribution Database, http://dx.doi.org/10.1787/data-00654-en.*

StatLink http://dx.doi.org/10.1787/888933177465

Table 2.2. **The impact of *Going for Growth* recommendations on income inequality**

The 2015 *Going for Growth* priorities (countries concerned)	Effects on employment	Effects on wage dispersion (or earnings inequality)	Effect on inequality in household disposable income
	Reforms that are likely to reduce income inequality		
Labour utilisation enhancing reforms			
Extending the coverage of unemployment insurance and social protection (AUS, CHL, CHN, GRC, IDN, ITA, JPN, KOR, PRT, RUS, TUR).	Well-designed unemployment insurance encourages formal labour force participation.	No direct impact on wage dispersion.	Unambiguous reduction in inequality through employment effect and wider insurance against income risks.
Improving effectiveness of ALMPs (job-search assistance/ individual follow-up/training and re-skilling) (ESP, EST, FRA, GRC, GBR, IRL, ISR, ITA, LVA, NLD, PRT, RUS, SVK, USA, ZAF).	Effective ALMPs reduces unemployment spells and labour market mismatch, thereby raising employment.	ALMPs improve both the employment opportunities and the earnings potential of low-skilled, with an unclear net effect on wage dispersion.	Reduction in inequality mainly through effects on employment.
Reducing the duality between regular and non-regular workers (in job protection, training opportunity, etc.)/ reducing informal labour participation (CHL, DEU, ESP, FRA, ITA, IND, IDN, ISR, JPN, KOR, SWE, TUR).	Easing stringent job protection on regular contracts encourages hiring.	Equity in job protections and training opportunities reduces earnings inequality between regular/non-regular workers.	Unambiguous reduction in inequality through employment effect and earnings inequality.
Reforming the tax-benefits system to encourage labour force participation of the low-skilled (AUT, BEL, COL, CZE, DEU, EST, FIN, GBR, HUN, IRL, ISR, LUX, LVA, NLD, POL, SVN, TUR).	Lower tax wedges promote labour force participation and employment of low-skilled individuals.	Wage dispersion may widen if employment increases mostly at the bottom of wage distribution.	Reduction in inequality if employment effect dominates the wage dispersion effect.
Reducing barriers to female labour force participation (increasing provision of childcare, reducing fiscal disincentives) (AUS, CHE, CHL, COL, CZE, DEU, GBR, IRL, JPN, KOR, NLD, NZL, POL,SVK, TUR, USA).	Effective measures allow higher labour force participation of women.	Smaller gender gap in working hours and training opportunities reduces earnings inequality.	Unambiguous reduction in inequality through effects on employment and wage dispersion.

Table 2.2. **The impact of *Going for Growth* recommendations on income inequality** *(cont.)*

The 2015 *Going for Growth* priorities (countries concerned)	Effects on employment	Effects on wage dispersion (or earnings inequality)	Effect on inequality in household disposable income
Labour productivity enhancing reforms			
Increasing the provision and quality of early, primary and secondary education (AUS, BRA, CHE, CHL, CHN, COL, CZE, DEU, DNK, FRA, GBR, GRC, HUN, IRL, ISL, IND, IDN, ISR, ITA, JPN, KOR, MEX, NZL, NOR, POL,PRT, SVK, SWE, TUR, USA, ZAF).	Basic education prevents social exclusion and increases employability.	Increased supply of skilled workers mitigates the wage dispersion driven by skill-biased technological change (SBTC).	Unambiguous reduction in inequality through employment effect and reduced wage dispersion.
Increasing the outcome of tertiary education/broadening access to VET and life-long training (AUT, BRA, CAN,CHE, CHL, CHN, COL, CZE, DEU, DNK, ESP, EST, EU, FIN, FRA, GBR, GRC, HUN, IND, ITA, JPN, KOR, NZL, POL, PRT, SVK, SVN, SWE, TUR, USA, ZAF).	Higher educational attainment is usually associated with higher employment rate.	Increased supply of skilled workers mitigates the wage dispersion driven by SBTC.	Unambiguous reduction in inequality through employment effect and reduced wage dispersion.
Enhancing the efficiency of the tax system (cutting back tax expenditures/broadening tax base/fighting tax evasion, etc.) (AUS, AUT, CAN, CHE, COL, DNK, DEU, FIN, FRA, GRC, ITA, JPN, LVA, NLD, NOR, SWE, TUR, USA).	No direct impact on employment.	No direct impact on wage dispersion.	Reduction in inequality to the extent that the tax expenditures benefitted most the higher income households.
Reforming agricultural and energy subsidy (CHE, EU, IDN, ISL,ISR, JPN, KOR, NOR,TUR, USA).	No direct impact on employment.	No direct impact on wage dispersion.	Reduction in inequality to the extent that the subsidies benefitted most the higher income households.
Reforms with undetermined impact or likely to raise income inequality			
Labour utilisation enhancing reforms			
Reducing the replacement rate and duration of unemployment benefits/strengthening conditionality on job-search (BEL, FIN, FRA, IRL, LUX, NLD, PRT, SVN).	Tighter conditionality on unemployment and social benefits encourage job search.	Potential increase in wage dispersion by lowering the reservation wage of the unemployed.	Overall impact on inequality ambiguous. Inequality increases if the benefits were targeted to groups with low employment prospects.
Reforming minimum wage and wage bargaining (BEL,COL, ESP, IDN, PRT,SVN, TUR, ZAF).	Lower minimum wage and more flexible wage setting encourage hiring.	Lowering minimum wage can increases wage dispersion especially at the bottom of the wage distribution.	Overall impact on inequality ambiguous.
Reducing disincentive for continued work at old age and tightening the eligibility to disability benefits (AUT, BEL, DNK, EST, FIN, HUN, LUX, NLD, NOR,POL, SVN, SWE, TUR, USA).	Tighter access to early retirement and disability benefits encourage labour force participation (higher employment conditional on employability of the targeted groups).	No direct impact on earning inequality.	Inequality reduced as long as earned labour income is higher than pension or benefits.
Labour productivity enhancing reforms			
Reforming product market regulation (PMR) to enhance competition, trade and FDI (AUT, BEL, BRA, CAN, CHL, CHN, CZE, DEU, DNK, ESP, EST, EU, FIN, FRA, GRC, HUN, IND, IDN, IRL, ISL, ISR, ITA, JPN, KOR, LUX, LVA, MEX, NZL, NOR, POL, PRT, RUS, SVK, SVN, TUR, ZAF).	Reducing barriers to entry as well as to trade and FDI spurs business activities and expand employment opportunities.	Fiercer competition increases wage dispersion by promoting SBTC and reducing the bargaining power of labour union.	The overall impact ambiguous and depends on the relative strength of the employment and SBTC effects.
Boosting innovation activities (R&D and other investments in KBC) (AUS, CAN, CHL, COL, CZE, EST, EU, IRL, LVA, MEX, NZL, PRT, RUS, SVK, SVN).	Innovation can expand employment via new business while making some jobs obsolete. No clear effect on overall employment.	Higher R&D intensity is often associated with larger wage dispersion.	Increase in inequality if leads to faster SBTC.
Shifting tax burden from direct to indirect taxes (consumption, property and environment taxes) (AUS, AUT, BEL, CAN, CHE, COL, CZE, DEU, DNK, EST, FIN, FRA, HUN, ITA, JPN, KOR, LAT, POL, SWE,USA).	Lower labour and corporate income tax rate boosts labour force participation and job creation, expanding employment.	No direct impact on wage dispersion.	Increase in inequality by reduced redistributive capacity of tax system and higher reliance on more regressive sources of taxation.
Reforming housing policy (cut back housing subsidies, rent regulation, and tax expenditure on home ownership) (DNK, LUX, NLD, NOR, POL, SVK, SWE, USA).	No direct impact on employment.	No direct impact on wage dispersion.	Increase in inequality if housing subsidies were originally targeted to poor households.

recommendations on overall inequality in household disposable income via their effect on employment and earnings inequality. The focus of these tables is on the long-run effects, consistent with the emphasis of most empirical studies, but also with the longer-term perspective of structural reforms.

Some reforms to stimulate labour force participation and job creation induce a trade-off between higher employment and wider wage dispersion among those employed (Table 2.1). This is the case with reductions in the minimum wage, unemployment benefits and the labour tax wedge (especially when targeted at low-wage workers). Others, however, unambiguously reduce overall earning inequality. For instance, measures to reduce the gap in employment protection between regular and temporary contracts have favourable long-term effect on employment while being conducive to a reduction in wage dispersion. Higher spending on ALMPs tends to be favourable to lower-skilled employment, while having little impact on wage dispersion.

As regards reforms to stimulate labour productivity, Table 2.1 indicates that with the exception of measures that boost multi-factor productivity via faster technological progress (e.g. through investment in innovation), most reforms are found to have either little effects or to reduce overall earnings inequality. First, once controlling for technological progress, spurring integration in world markets through either external trade linkages or foreign direct investment has no clear effect on earnings inequality. Second, lowering regulatory barriers to competition in product markets is found to widen wage dispersion, but this effect can be more or less offset by employment gains.

One recent study examined the joint effects of structural reforms on GDP per capita and inequality in household disposable incomes and came up with broadly similar conclusions as regards the identification of policy trade-offs between growth and income equality (Causa, de Serres and Ruiz, 2014). According to the analysis, lower regulatory barriers to domestic and foreign competition and investment, stronger ALMPs are all found to deliver stronger income gains for households at the low end of income distribution, hence to reduce income inequality. Conversely, reductions in unemployment benefits for the long-term unemployed are found to reduce the income of poor household while lifting GDP per capita and average household income.

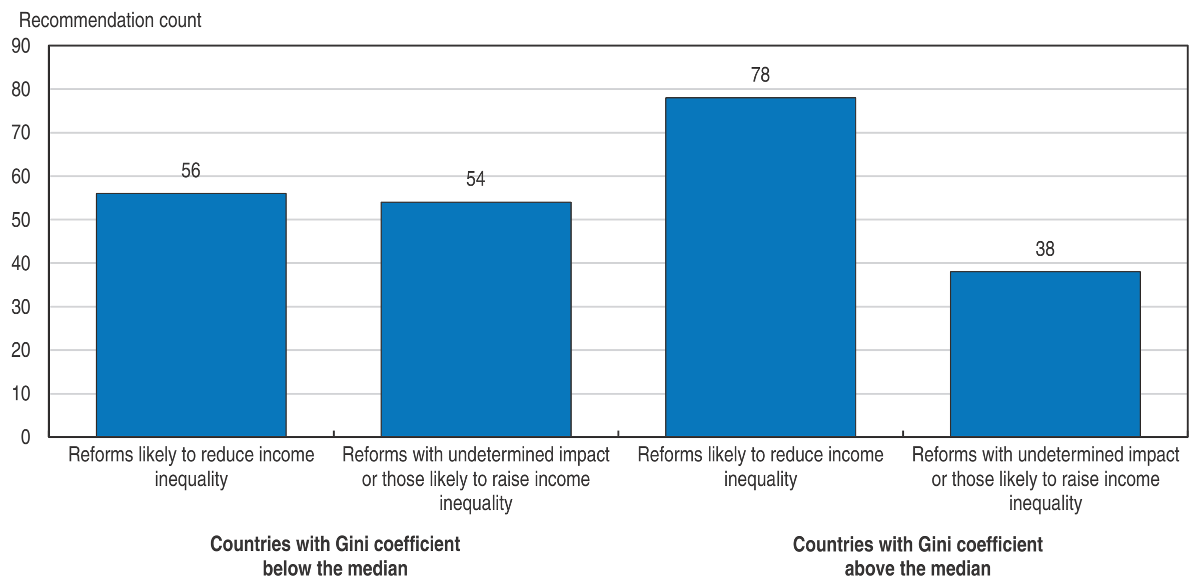
Increases in the dispersion of market income can also be mitigated by taxes and transfers, resulting in lower inequality of household disposable incomes. Indeed, the taxation of labour and capital incomes, social security contributions as well as transfers including pension and unemployment benefits have played an important role in mitigating household income inequality between the mid-1980s and the mid-1990s (OECD, 2011c; OECD, 2012).[10] However, their redistributive capacity has declined since the mid-1990s, partly due to stricter conditionality in transfers and to an increase in tax expenditures that benefit higher-income groups most. Furthermore, the growing importance of technological progress as a source of market income inequality, combined with the increasing cross-border mobility of skilled workers, firms and intellectual property, is likely to challenge the redistributive capacity of tax and transfer systems and the perception of fairness. This underscores the importance of identifying robust and efficient redistribution instruments while co-ordinating policies at the global level (OECD, 2014b).

How can pro-growth reforms be made more inclusive?

It is noteworthy that many *Going for Growth* recommendations are favourable to both economic growth and a narrowing of income distribution once the employment effect is taken into account (see Table 2.2). Furthermore, drawing from the observation in Table 2.2, Figure 2.4 indicates that among countries starting with a relatively high level of inequality, the number of recommendations likely to reduce inequality is nearly twice as large as the number with an undetermined impact or likely to raise inequality. The allocation of recommendations between those that help reducing inequality and those that do not help is more balanced among OECD countries with relatively low income inequality. This section discusses how reforms can be designed in order to make growth more inclusive.

Figure 2.4. **Many *Going for Growth* recommendations will help reduce household income inequality**

Number of recommendations for groups of countries with Gini coefficients below or above the median



Note: This figure summarises the number of *Going for Growth* recommendations that are likely to reduce income inequality and that of recommendations with undetermined impact or which potentially raise inequality. It corresponds to the recommendations listed in Table 2.2. 34 OECD countries are separated into the 17 countries with Gini coefficients of household disposable income (the 2011 data or of latest available year) lower than median and the other 17 countries with higher Gini coefficients.

StatLink http://dx.doi.org/10.1787/888933177470

Increasing the provision and quality of education and training is an example of reforms that contributes both to economic growth and equity. Particular emphasis should be put on equal access to early, primary and secondary education as well as in evenly-high quality of basic education, in order to prevent the exclusion from labour market of socially or economically disadvantaged groups. Also, broader access to higher education, vocational education and training as well as life-long re-training opportunities mitigates the impact of skills-biased technical change on wage inequality. Ensuring equal opportunity of up-skilling will be an important policy for inclusiveness in knowledge-based economies.

Removing obstacles to the labour participation of women is another reform that enhances growth and reduces income inequality. One priority in this area is to reduce the financial disincentives to return to work after childbirth, including specific features of the tax-benefits system, such as high taxes on second earners and ill-targeted childcare support. Making tax allowances and transfers conditional on second earner's income level rather than on family income level, or expanding childcare support conditional on employment (such as childcare subsidies or paid maternity leave) are likely to reduce such disincentives. Furthermore, expanding the access to affordable childcare services is also likely to encourage women full-time labour participation and reduce inequality.

Reducing regulatory barriers to entry and competition in sectors with large potential markets is associated with large employment effect, which is likely to reduce income inequality even in face of wider wage dispersion. A recent OECD study (Criscuolo et al., 2014) found that across 18 OECD and non-OECD countries, small firms that are five years old or less on average contribute to about 42% of job creation whereas they represent only 17% of employment. Such a disproportionally large role by young firms in job creation suggests that reducing barriers to entrepreneurship can contribute significantly to income equality via employment effect.

Income redistribution can be strengthened in a growth-friendly way by cutting tax expenditures, broadening tax bases and fighting tax evasion. Such reforms can raise the efficiency of the tax system and reduce income inequality especially for those tax expenditures that are mostly benefitting higher-income households, even though some of the regressive tax expenditures may be related to socially valuable activities (such as R&D tax credits). In contrast, raising marginal tax rates can entail non-negligible economic costs.[11]

Some reforms call for a careful implementation so as to take into account their potential adverse equity effects. For instance, in reforming unemployment benefits, special attention needs to be given to the long-term unemployed, which comprise more than one-third of the unemployed in the OECD area (at the first quarter of 2014). Because of their bleaker employment prospects, tightening benefits for this group can exacerbate poverty unless matched by other forms of social protection or targeted requalification measures. This also implies that unemployment benefits and active labour market policies should be primarily geared toward shortening the unemployment spell.

In a similar vein, reforms that tighten access to pension and disability benefits require a careful design of employability assessment. Such reforms may widen income inequality if the prospect of finding jobs that compensate for the loss of social transfer is low. Provisions of activation services and retraining opportunities extended but targeted to those groups (which are currently under-represented in such programmes) become an important policy for enhancing both growth and equity as working lives are progressively extended.

Employment protection legislation is another policy area with potentially large effects on income inequality. Reforms of employment protection should focus on reducing the gap in the degree of protection between temporary and regular contracts. Such reforms reduce income inequality through effects on employment and wage dispersion: where excessively strict, an easing of regulatory constraints on the dismissal of workers on regular contracts would encourage more hiring on such contracts, preventing thereby employment to be biased toward temporary workers. Insofar as dismissals entail the loss of wage income, the easing of employment protection legislation should be coupled with a reform of unemployment benefits to provide adequate coverage to all workers. In this regard, shifting protection from jobs to workers brings higher efficiency and equity.

Reforms of taxes and transfers have direct consequences on income inequality since they concern the very instruments of redistribution. For instance, reforming the tax structure in a way to lower the weight of direct taxes while relying more on indirect taxes is favourable for growth (Arnold, 2008), but may increase inequality through various channels such as the likely adverse effects of relatively higher consumption taxes on less affluent households (who tend to consume more out of income). However, such impact can be minimised if the tax shift is achieved by lowering the labour tax wedge on low-income households through in-work tax credits and other income-conditional tax allowances. This preserves the redistributive capacity of the tax-benefits system while further enhancing equity by encouraging the labour participation of low income households. Increasing the role of indirect taxes can be made less regressive by strengthening the taxation on immovable properties and inheritance. Even when the reform involves a rise in consumption tax rates, the regressive nature can be mitigated by enlarging the tax allowance targeted at low-income households.

Notes

1. The 2006 issue of *Going for Growth* (OECD, 2006) discussed the limitation of GDP to gauge material living standards and well-being (Chapter 6). Some measures that extend GDP numbers to non-market production have been explored in the 2011 issue (OECD, 2011b, Chapter 1 Annex). The 2012 issue (OECD, 2012, Chapter 5) reported the empirical findings on the effects of a selection of structural reforms on earning inequality, whereas the 2013 issue (OECD, 2013a, Chapter 2) offered a comprehensive overview on the side-effects of *Going for Growth* recommendations to income inequality.
2. Figure 2.1 involves a comparison between National Accounts (macro) and Household Survey (micro) data. As such, the comparability could be affected by measurement discrepancies (see Causa et al., 2014).
3. There is growing consensus that the most appropriate income concept for analysing income distribution is household disposable income adjusted for publicly-provided in-kind services, such as education and health care spending (Stiglitz et al., 2009). This measure is the most comprehensive income concept, and includes several policy and non-policy factors shaping its distribution. However, since measures of household disposable income adjusted for in-kind services have only been produced for recent years, longer trends can only be examined on the basis of series without such adjustment.
4. The focus of the chapter is strictly on income and the issue of wealth distribution is not addressed. For a review of long-term trends and evolutions in the distribution of wealth in major countries, see Piketty (2014).
5. Demographic factors such as the changes in age structure (increase in older household) and household structure (increase in people living alone) explain significant portion of the change in income distribution for some countries such as Australia, Canada, France, Germany, the Netherlands and the United Kingdom (OECD, 2008).
6. Such growth in wage inequality is slightly faster than the average annual increases observed during the early 1990s to the pre-crisis period in the OECD countries. Wage inequality is measured in this case as the ratio of the upper bound of the 9th decile of the wage distribution for full-time employees to the upper bound of the 1st decile.
7. Stronger product market competition induces firms to improve productivity (Pavnick, 2002, Aghion et al., 2005). Such productivity improvement is often realised through investment in knowledge-based capital. For instance, Bloom et al. (2012) reported that import competition with China induced European firms to invest in IT, R&D and better management practices. Intensive use of KBC, namely IT and complementary organisational change, is considered to have reduced the demand for codifiable, routine job (Bresnahan et al., 2002; Autor et al., 2006).
8. At the same time, lower prices resulting from competitive pressures may support the wage of low-income groups in real terms, if they occur in the goods that have a relatively high share in the consumption basket of the low-income groups (OECD, 2013a).
9. The composite indicator of structural reform reflects changes in a broad set of policy settings over the period 2000-12. See Box 1.2 in Chapter 1 for details on the construction of the composite indicator.
10. See in particular Chapter 7 and Chapter 5 of the respective references.

11. Beside the difficulty related to the global mobility of skilled workers and firms, a recent OECD study (Andrews and Criscuolo, 2013) found that higher marginal tax rate is associated with lower intensity in entrepreneurship.

Bibliography

Aghion, P., N. Bloom, R. Blundell, R. Griffith and P. Howitt (2005), "Competition and innovation: An Inverted-U relationship", *Quarterly Journal of Economics*, Vol. 120, No. 2, pp. 701-728.

Andrews, D. and C. Criscuolo (2013), "Knowledge-Based Capital, Innovation and Resource Allocation", *OECD Economics Department Working Papers*, No. 1046, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k46bj546kzs-en*.

Arnold, J. (2008), "Do Tax Structures Affect Aggregate Economic Growth? Empirical Evidence from a Panel of OECD Countries", *OECD Economics Department Working Papers*, No. 643, OECD Publishing, Paris, *http://dx.doi.org/10.1787/236001777843*.

Autor, D.H. (2014), "Skills, Education, and the Rise of Earnings Inequality Among the 'Other 99 Percent'", *Science*, Vol. 344(6186), 23 May 2014, pp. 843-851.

Autor, F., L. Katz and M.S. Kearney (2006), "The Polarization of The US Labour Market", *American Economic Review Paper and Proceedings*, May 2006, pp. 189-194.

Bloom, N., M. Draca and J. Van Reenen (2012) "Trade Induced Technical Change? The Impact of Chinese Imports on Innovation, IT and Productivity", latest version available from *http://web.stanford.edu/~nbloom/TITC.pdf*.

Braconier, H., G. Nicoletti and B. Westmore (2014), "Policy Challenges for the Next 50 Years", *OECD Economic Policy Papers*, No. 9, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz18gs5fckf-en*.

Braconier, H. and J. Ruiz-Valenzuela (2014), "Gross Earning Inequalities in OECD Countries and Major Non-member Economies: Determinants and Future Scenarios", *OECD Economics Department Working Papers*, No. 1139, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz123k7s8bv-en*.

Bresnahan, T.F., E. Brynjolfsson and L.M. Hitt (2002), "Information Technology, Workplace Organization, and the Demand for Skilled Labor: Firm-Level Evidence", *Quarterly Journal of Economics*, Vol. 117, pp. 339-376.

Causa, O., A. de Serres and N. Ruiz (2014), "Can Pro-Growth Policies Lift All Boats? An Analysis Based on Household Disposable Income", *OECD Economics Department Working Papers*, OECD, Paris, *www.oecd.org/eco/growth/Can_pro-growth_policies_lift_all_boats_an_analysis_based_on_household_disposable_income.pdf*.

Causa, O., S. Araujo, A. Cavaciuti, N. Ruiz and Z. Smidova (2014), "Economic Growth from the Household Perspective: GDP and Income Distribution Developments Across OECD Countries", *OECD Economics Department Working Papers*, No. 1111, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz5m89dh0nt-en*.

Criscuolo, C., P.N. Gal and C. Menon (2014), "The Dynamics of Employment Growth: New Evidence from 18 Countries", *OECD Science, Technology and Industry Policy Papers*, No. 14, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz417hj6hg6-en*.

Goos, M., A. Manning and A. Salomons (2009), "Job Polarization in Europe", *American Economic Review Paper and Proceedings*, Vol. 99, No. 2, pp. 58-63.

Koske, I., J. Fournier and I. Wanner (2012), "Less Income Inequality and More Growth – Are They Compatible? Part 2. The Distribution of Labour Income", *OECD Economics Department Working Papers*, No. 925, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k9h2975rhhf-en*.

OECD (2014a), "Top Incomes and Taxation in OECD Countries: Was the Crisis a Game Changer?", May, *www.oecd.org/els/soc/OECD2014-FocusOnTopIncomes.pdf*.

OECD (2014b), "Shifting Gear: Policy Challenges for the Next 50 Years", *OECD Economics Department Policy Notes*, No. 24, July 2014, *www.oecd.org/eco/growth/Shifting%20gear.pdf*.

OECD (2013a), *Economic Policy Reforms 2013: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2013-en*.

OECD (2013b), "Crisis Squeezes Income and Puts Pressure on Inequality and Poverty-Results", from the OECD, *Income Distribution Database*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/data-00654-en*.

OECD (2012), *Economic Policy Reforms 2012: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2012-en*.

OECD (2011a), *How's Life? Measuring Well-being*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264121164-en*.

OECD (2011b), *Economic Policy Reforms 2011: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2011-en*.

OECD (2011c), *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264119536-en*.

OECD (2008), *Growing Unequal? Income Distribution and Poverty in OECD Countries*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264044197-en*.

OECD (2006), *Economic Policy Reforms 2006: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2006-en*.

Pavnick, N. (2002), "Trade Liberalization, Exit, and Productivity Improvements: Evidence from Chilean Plants", *The Review of Economic Studies*, No. 69, pp. 245-76.

Piketty, T. (2014), *Capital in the 21st century*, Harvard University Press.

Piketty, T. and E. Saez (2014), "Inequality in the Long Run", *Science*, Vol. 344, No. 6186, pp. 838-844.

Stiglitz, J.E., A. Sen and J.P. Fitoussi (2009), *Report by the Commission on the Measurement of Economic Performance and Social Progress*, *www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf*.

Economic Policy Reforms 2015
Going for Growth

Chapter 3

Pro-growth structural reforms, the environment and environmental policies

This chapter examines the environmental pressures related to economic growth, and how these may feed back to future growth and wellbeing. It discusses the role of structural reforms and environmental policies in this respect, and presents recent evidence on the importance of adequate design of environmental policies as well as on their impact on productivity growth.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Main findings

- Economic growth usually comes with higher pressures on the environment.
- At some point, environmental degradation starts feeding back negatively on future gross domestic product (GDP) and well-being, for instance because of poorer health, water shortages, land degradation, or extreme weather events.
- The relationship between growth and the environment is influenced both by environmental policies and the structural policy framework against which they are implemented.
- Rising incomes and mounting environmental pressures will increase the demand for environmental protection, though likely not enough to fully account for the adverse feedbacks on growth and well-being.
- The stringency of environmental policies can be increased without harming economy-wide productivity.
- This requires environmental policies that are flexible and neutral with respect to technological choices and that minimise barriers to competition.
- Still, a tightening of environmental policies affects firms differently: the most technologically-advanced firms benefit, while the least advanced ones further lose on productivity.
- Some growth-enhancing reforms can also be good for the environment, such as increasing environmental taxes, introducing road pricing or removing harmful subsidies.
- Other growth-enhancing reforms enhance the effectiveness of environmental policies. This is the case of improving the rule of law or competition policies.
- However, most growth-enhancing policies have little or no impact on the relationship between GDP and the environment.

Introduction

Environmental services are both direct determinants of the wellbeing of citizens and inputs into economic activity. However, they are often not priced efficiently (or not priced at all), and economic activity can hence undermine the ability of the environment to provide services in the future – putting the sustainability of growth and wellbeing at risk. This motivates an increasing attention to the interplay between growth and the environment.

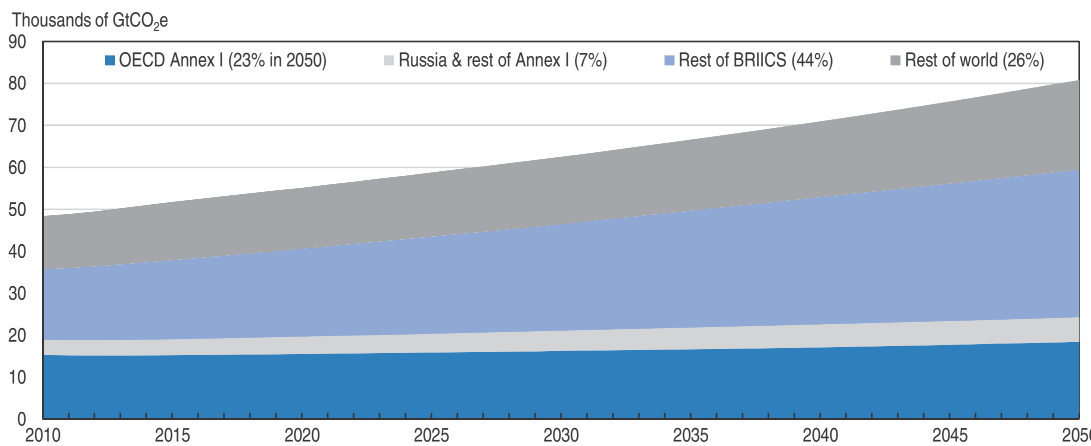
In a dedicated chapter, *Going for Growth 2013* reviewed the potential effects of growth-enhancing policies on the environment. The overall conclusion was that it is difficult to assess the effects of reforms *per se* – more growth is likely to increase pressures on environment, but most recommended reforms should not have major environmental consequences. The environmental consequences would rather be linked to the environmental policies in place and the details in the design and implementation of the pro-growth reform. This chapter takes the analysis a step further, drawing on new evidence on the economic effects of environmental damage and of environmental policies – stringency, instrument choice and design.

Economic growth is likely to put further pressure on the environment

Other things being equal, economic growth is likely to lead to higher emissions, pollution levels and environmental degradation. For instance, OECD projections show global greenhouse gas emissions rising by over 50% by 2050 in a business-as-usual scenario (Figure 3.1). Over the same period, primary forests are projected to shrink by 13%, leading to a significant loss in terrestrial biodiversity, especially in parts of Asia, Europe and Southern Africa, as well as to concurrent losses in freshwater biodiversity (OECD, 2012). The global demand for freshwater is expected to rise rapidly, straining water availability in many regions: by 2050, some 3.9 billion people – 40% of global population – are likely to be living in areas subject to severe water stress. Air pollution is projected to affect more and more people around the world, driving up mortality and morbidity (OECD, 2014a).

Figure 3.1. **Greenhouse gas emissions are projected to continue increasing around the world**

Regional projections in a business-as-usual scenario



Note: "OECD Annex I" stands for the group of OECD countries that are also part of Annex I of the Kyoto Protocol. $GtCO_2e$ = Gigatonnes of CO_2 equivalent.

Source: OECD (2012), *OECD Environmental Outlook to 2050: The Consequences of Inaction, http://dx.doi.org/10.1787/9789264122246-en.*

StatLink http://dx.doi.org/10.1787/888933177484

At the same time, as incomes and populations grow and environmental pressures mount, demand for a better quality of the natural environment may rise, leading increasingly wealthy societies to adopt more stringent environmental protection measures (see for example Grossman and Kruger, 1995). This can help slow the pace of pollution emissions relative to output growth (relative decoupling) or even lead to an absolute decline (absolute decoupling). Still, several key types of failures (e.g. public good nature of the environment, path-dependency, and international co-ordination issues) and uncertainties concerning environmental effects and the perceptions that environmental policies can harm economic activities can imply that environmental policies may remain insufficiently stringent.

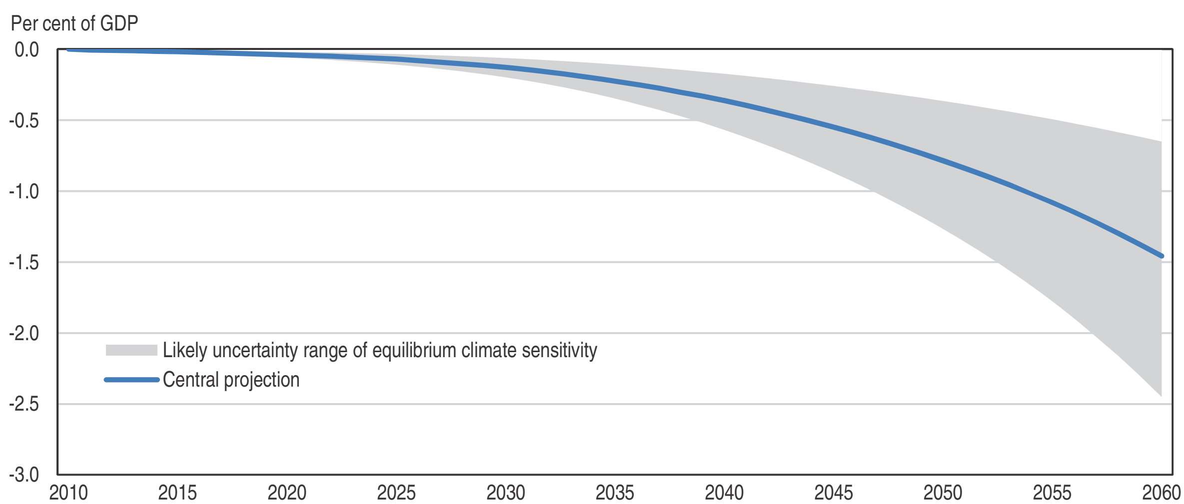
Environmental damage can feed back into lower growth and welfare

Environmental degradation has substantial costs, affecting current and future wellbeing. In looking at the cost of environmental degradation, several dimensions of wellbeing need to be taken into consideration. One is the impact of the environmental externalities on current and future GDP arising from a range of factors such as reduced crop yields, health-related productivity losses, increased pollution related to road congestion, water shortages, land degradation and other constraints on the availability and use of natural resources. Large scale systemic environmental disruptions, such as climate change, could lead to much larger GDP impacts. While estimates of such disruptions are subject to high uncertainty, there are numerous attempts to quantify the cost of environmental damage.

OECD modelling work projects sizeable effects of climate change on future GDP growth (OECD CIRCLE project, Dellink et al., 2014; OECD, 2014b). Analysis of the feedback loop from rising environmental impacts to GDP is still at an early stage, and focuses mainly on effects of greenhouse gas emissions. Nevertheless, projections show, under unchanged policies, GDP losses of 0.7% to 2.5% globally, coming largely from lower agricultural productivity and rising sea levels (Figure 3.2). While these partial effects may not appear huge overall, and are expected to materialise in a fairly distant future, they are problematic due to long-term persistence, and the risk of getting locked in a costly path. The estimated effects do not yet include rising health costs and productivity losses related to air pollution in many countries, water scarcity or land degradation. They also do not incorporate effects of biodiversity loss, extreme weather events which climate change is likely to bring about or increasing risks of irreversible large-scale disruptions to the climate system.

Figure 3.2. **Climate change is projected to reduce future GDP**

Global GDP impact based on temperature rise of 1.5°C-4.5°C



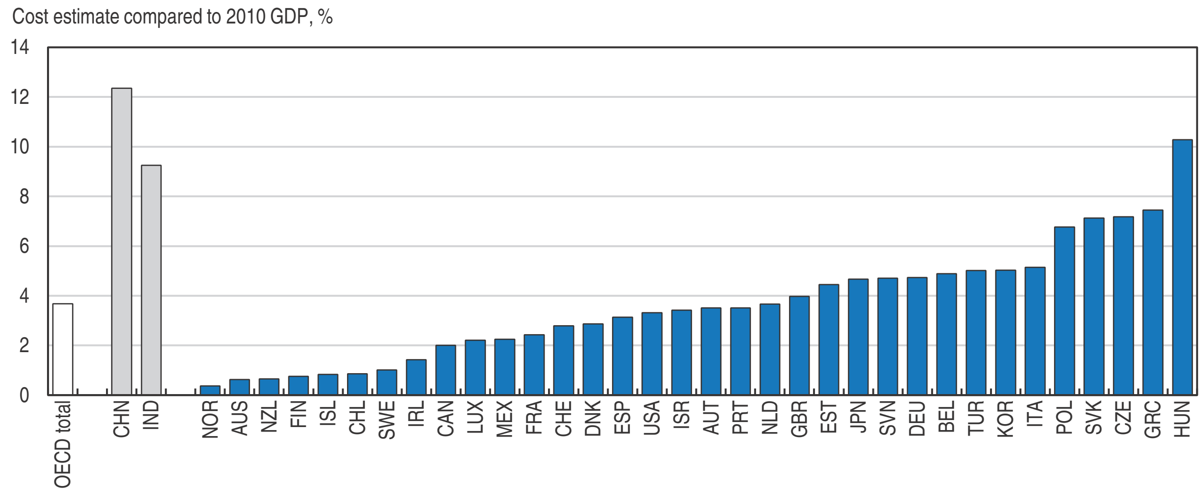
Source: Simulations from OECD ENV Linkages model, Dellink, R. et al. (2014), "Consequences of Climate Change Damages for Economic Growth: A Dynamic Quantitative Assessment", *OECD Economics Department Working Papers*, No. 1135, *http://dx.doi.org/10.1787/5jz2bxb8kmf3-en.*

StatLink *http://dx.doi.org/10.1787/888933177498*

The wellbeing impact of environmental degradation extends beyond climate change and GDP, to other dimensions of the quality of life, not least through health outcomes. Estimates of total costs focus primarily on mortality and morbidity. For instance, the health cost of air pollution in OECD countries (including deaths and illnesses) is estimated to total the equivalent of almost 4% of GDP in 2010 (Figure 3.3), half of which is due to road transport. The wellbeing cost, broadly defined, was estimated at 12% of GDP for China, and at 9% of GDP for India (2005) (OECD, 2014a). The actual effects on GDP may be nuanced – a large part of these effects fall on the non-working population, and health effects may even increase demand, for example, for health services. Still, damage to health affects GDP, through higher absenteeism as well as lower labour productivity and human capital (see Isen et al., 2014; Graff Zivin and Neidell, 2012, 2014).

Figure 3.3. **Estimated costs of air pollution**

Expressed relative to GDP for comparative purposes



Note: Estimates are derived by multiplying the "value of statistical life" (derived by aggregating individuals' willingness to pay to secure a small reduction in the risk of premature death) by the number of deaths attributable to outdoor air pollution, as released by the World Health Organisation (WHO) in 2010. Data refer to 2005 for India.

Source: OECD (2014), *The Cost of Air Pollution: Health Impacts of Road Transport*, *http://dx.doi.org/10.1787/9789264210448-en*.

StatLink http://dx.doi.org/10.1787/888933177500

Most pro-growth reforms will not substantially affect environmental pressures

The direct effects of most pro-growth recommendations on the environment are unlikely to be substantial. The majority of reforms identified will not affect the environment directly; any effects being due to increased economic activity. More growth will likely lead to a higher use of environmental inputs, but the magnitude of such effects will largely depend on the country context, in particular on the environmental policies in place. Following *Going for Growth 2013*, the country-specific recommendations that are likely to have some environmental effects beyond that solely due to growth are listed in Table 3.1.

None of the reform priorities identified have clear and outright negative consequences for the environment while some can actually reduce the pressures posed by economic growth. The latter is the case for policies that *de facto* strengthen the stringency and enforcement of environmental policies, thereby making polluting and damaging the environment more costly to firms and households. For instance, the recommendation to shift tax structures away from income to environmental taxes would likely result in curbing some types of pollution. Similar effects can be expected from recommendations to implement road pricing and congestion charges, phase-out or reduce fossil fuel subsidies and producer support to agriculture as well as to improve the rule of law. However, even in these cases, the exact environmental consequences are difficult to evaluate, as they will depend on the reform details and the context in which it is implemented (Box 3.1).

Environmental policies can be good for growth

The negative impacts of growth on the environment can be mitigated by environmental policies. More stringent environmental policies raise the cost of polluting or environmentally damaging behaviour, encouraging mitigation efforts and cleaner production and consumption. They are therefore intended to secure benefits of longer term wellbeing and the sustainability of growth. An immediate question is whether this

Table 3.1. **The effects of *Going for Growth* recommendations on the environment**

The 2015 *Going for Growth* priorities (countries concerned)	Potential effect on the environment
Reforms likely to improve environmental quality	
Shifting tax burden from direct to indirect taxes, in particular environment taxes (AUT, BEL, CAN, CHE, COL, CZE, EST, FRA, HUN, ITA, KOR, LVA, POL, USA).	Introduction or increased use of environment taxation discourages environmentally harmful activities via the pricing of externalities.
Introducing/increasing price signals and user fee in public infrastructure (e.g. congestion charges) (AUS, CHE, EST, GBR, NZL, POL).	Adequate use of road and energy infrastructure reduces related emissions and local pollution.
Reducing energy (fossil fuel, etc.) subsidies (IDN).	Curbing excessive energy consumption reduces greenhouse gas emissions and local pollution.
Improving the rule of law (CHN, MEX, IDN, RUS, SVK) and enhancing the efficiency of public administration (GRC, HUN).	Would improve the enforcement of environmental regulations.
Reforms with ambiguous or potentially negative effect on the environment	
Enhancing the efficiency of the tax system by broadening tax bases and reducing tax expenditures (AUS, AUT, CAN, CHE, COL, DNK, DEU, FIN, FRA, GRC, ITA, JPN, LVA, NLD, NOR, SWE, TUR, USA).	Favourable effects as long as the tax preferences encouraging polluting behaviour (e.g. coal heating) are scrapped while those on cleaner activities (e.g. commuting by public transport) are maintained.
Reducing the barriers to competition and FDI in network sectors (AUT, BEL, BRA, CHL, CHN, CAN, DEU, ESP, EST, EU, FIN, FRA, GRC, HUN, ISL, IDN, IRL, ISR, JPN, MEX, NOR, NZL, POL, PRT, SVK, SVN, TUR, ZAF).	Competition may promote entry of more energy-efficient suppliers and use of cleaner technologies, provided that appropriate environmental regulation and pricing are in place. However, lower prices due to competition can increase energy consumption and use of network services (rebound effect).
Increasing capacity and quality of public infrastructure (AUS, BRA, COL, EST, EU, GBR, IND, IDN, LVA, NZL, POL).	Better infrastructure eases congestion and can reduce transport-related emissions, improve energy efficiency, environmental performance and quality of utility services (e.g. better water quality, lower network losses, improved waste management). However, provision of new infrastructure can increase demand, resulting in higher emissions. Infrastructure construction can cause the deterioration of landscapes such as deforestation.
Reducing producer support to agriculture (CHE, EU, ISL, ISR, JPN, KOR, NOR, TUR, USA).	Reducing intensive land use for agriculture and use of fertiliser/pesticide improves the eco system and reduces emissions of greenhouse gasses. However, scrapping support to eco-farming may discourage cleaner agriculture.
Reform land, zoning and planning restrictions (DNK, FIN, GBR, IND, IRL, LUX, NLD, POL, SWE).	Less strict zoning regulation (e.g. for retailers) can improve traffic patterns, reducing congestion. However, de-regulation of land-use can result in degradation of the environment such as deforestation or destruction of eco-systems.
Reduce rent regulation and housing subsidies (DNK, LUX, NLD, NOR, POL, SWE, USA).	Can reduce or increase car commuting and resulting emissions, e.g. depending on people's preferences in residential location (near workplace or far).

needs to be done at the expense of growth itself, particularly in the short to medium term. In this respect, there is no consensus (see Ambec et al., 2013; Kozluk and Zipperer, 2014). On the one hand, environmental policies are often thought to hinder economic growth by imposing additional costs and restricting output, inputs and technologies. On the other hand, well-designed environmental policies can actually boost growth and competitiveness, by making use of previously overlooked opportunities to raise efficiency (Porter, 1991; Porter and van der Linde, 1995).

Recent OECD evidence linking multifactor productivity growth to changes in environmental policy stringency (EPS) suggests no harm to aggregate productivity growth from tighter environmental policies (Albrizio et al., 2014).[1] Macro, industry and firm-level results using newly developed, internationally comparable indicators of EPS show that effects of incremental tightening of environmental policies on productivity are likely to be incurred through small and short-term adjustments. None of the effects seem to last beyond three years.

Box 3.1. **Challenges in assessing the environmental consequences of growth-enhancing structural reforms**

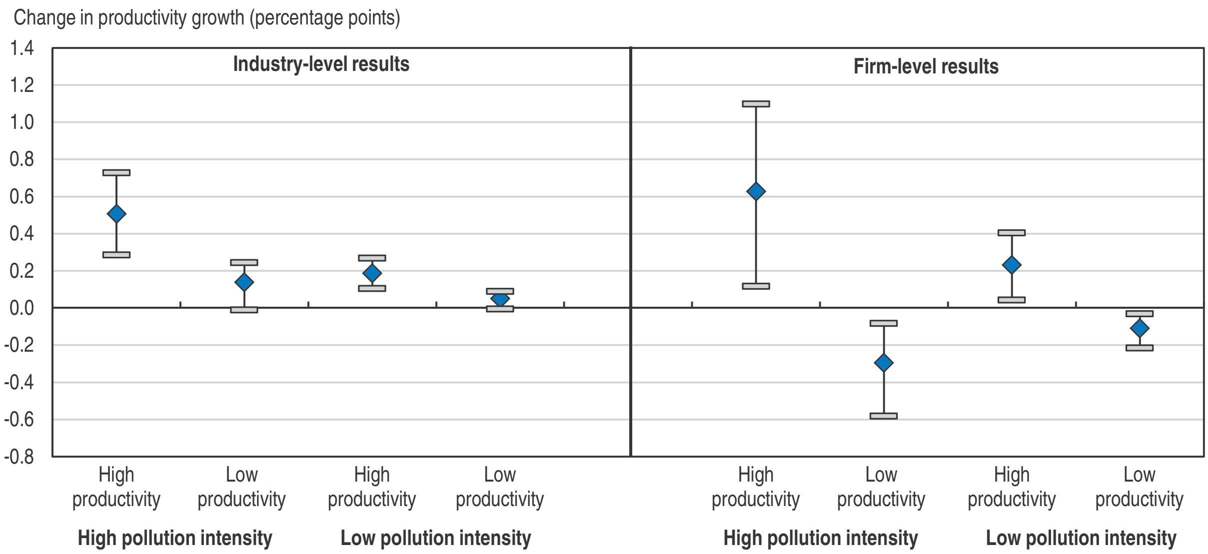
Numerous issues in assessing the potential environmental effects of pro-growth reforms were identified in *Going for Growth 2013*. These include:

- Reform design: environmental outcomes will likely depend on the design and implementation of the growth-enhancing reforms.
- Framework conditions (in particular for what concerns environmental policies): existing and future policies will often determine how a certain reform will impact the environment. For instance, liberalisation in the energy market can increase investment in generation capacity, but the environmental impacts will depend on the implementation of policies that put a limit or price on environmental externalities.
- Multi-dimensionality of environmental effects: there may be trade-offs among different types of environmental externalities, for instance recommendations on transport and on zoning regulation may see trade-offs between land use and air pollution.
- The national framework of structural reforms versus the spatial nature of environmental effects – environmental effects can be local, national or global, while the growth-enhancing recommendations focus on national policies.
- Long time horizons, uncertainty and knowledge gaps: environmental impacts can have very different and, in many cases, long-lasting effects, which raises issues of discounting the future. They are also often not very well understood or uncertain.

More importantly, productivity growth appears not to be affected by whether the country already has stringent policies or not. What matters for short-term effects on productivity growth, are changes in environmental policies. At the aggregate level, tightening is preceded by a slowdown in productivity growth prior to the policy change, likely due to investments and reorganisation in preparation for the new rules. A subsequent rebound cancels out the effect on productivity levels.

At the industry and firm levels, impacts depend on technological advancement – more productive firms tend to see a boost in productivity growth while less advanced ones are likely to see a temporary fall (Figure 3.4). Highly productive firms may be best suited to profit rapidly from changing conditions – through seizing new market opportunities, rapidly deploying new technologies or reaping previously overseen efficiency gains. The effects may also take place through outsourcing and relocating some of the production abroad, in response to the increased costs of activity. At the same time, the positive effect for the most productive firms is likely to be reinforced by their technological advancement, as they can draw on the most advanced technologies and are likely to have more resources to invest into R&D, for instance, in general anticipation of tightening. Less technologically-advanced firms may need higher investments to comply with the new regulation, for instance adopting cleaner technologies or exchanging equipment, implying a temporary fall in productivity growth. The results also suggest that part of the adjustment, particularly for less technologically-advanced firms, may take the form of firm exit. The exit of the least efficient firms would raise overall industry productivity, cancelling out the negative productivity effects observed in surviving less efficient firms.[2]

Figure 3.4. **Simulated effects of environmental policy tightening on industry and firm level productivity growth**



Note: 1) One year effects of a median increase in environmental policy stringency, i.e. 0.12 change in the value of the EPS index in one single year (annual equivalent of tightening policies from the level in Italy or Greece to that of the Nordic countries). Effects are estimated to last for three years after the policy change and then fade away. No lead effect is found. 2) High (low) pollution intensity is defined as an industry with the highest (lowest) pollution intensity on seven selected key pollutants with respect to value added. 3) High productivity is defined as the country-industry pair (or firm) on or close to the estimated global industry (or firm) productivity frontier. Low productivity is defined as country-industry pair (or firm) at the 75th percentile of distance to the global industry (or firm) productivity frontier. 90% confidence intervals are reported.

Source: Albrizio, S. et al. (2014), "Do Environmental Policies Matter for Productivity Growth? Insights from New Cross-Country Measures of Environmental Policies", *OECD Economics Department Working Papers*, No. 1176, *http://dx.doi.org/10.1787/5jxrjncjrcxp-en*.

StatLink http://dx.doi.org/10.1787/888933177515

The design and choice of environmental policy instruments is crucial

Stringent environmental policies are necessary for achieving environmental objectives, but a number of specific features of environmental policies may affect economic outcomes (Johnstone and Hascic, 2009; de Serres et al., 2010):

- *Dynamic efficiency (or depth)* – the extent to which a policy instrument gives continued incentives to search for cheaper abatement options (e.g. via innovation).
- *Flexibility* – the extent to which the policy leaves room for the firm (or consumer) to choose how to reach the environmental objective, less prescriptive policy interventions being better suited to accommodate new ideas, innovation and technology adoption.
- *Predictability* – the consistency, credibility and clarity of the current and future policy signal can affect investment, innovation and eventually productivity growth. Certainty on future pricing of a particular externality provides stronger incentives to adopt long-term abatement strategies.
- The *competition-friendliness* aspects of environmental policies are less often recognised, but are potentially as important for overall economic outcomes as other product market regulations, such as those prevailing in network sectors or services. Competition is a key engine of growth and minimising the distortions stemming from the design and implementation of environmental policies can improve both economic and environmental outcomes. Lower barriers to entry and competition encourage innovation, adoption of cleaner technologies and entry of environmentally-friendly business models.

To a large extent, the importance of the design of environmental policies for economic outcomes has yet to be documented empirically. The flexibility and predictability arguments have hardly been assessed empirically, while issues of competition friendliness have possibly been given the least attention. Overall, the competition burdens of environmental policies can be expected to have similar effects as the well-documented general anti-competition regulation – such as that measured by the product market regulation indicators (Nicoletti and Scarpetta, 2003; Arnold et al., 2008).[3]

More flexible, market-based instruments are found to bring about a more robust rebound in MFP growth. This backs up the argument that market-based instruments should be preferred where possible. The finding is also well in line with the pro-growth recommendations on switching from highly distortive taxation (e.g. on labour) to a greater reliance on environmental taxes.

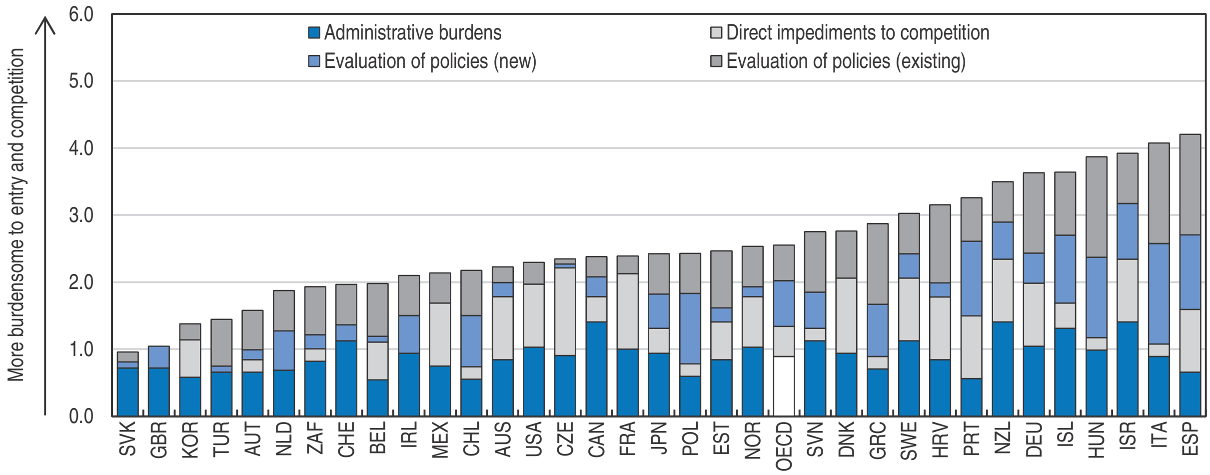
In contrast with more general entry and competition-inhibiting regulations, environmental policies have little direct impact on large swathes of the economy as the most burdensome procedures and designs are likely concentrated in the high-polluting sectors and industries. For example, in almost all surveyed countries environmental permit requirements are directly related to activities in designated sectors or dealing with particular substances. A major exception pertains to the direct and indirect environmental impacts of land use regulations such as zoning, which can affect a broad range of businesses directly.

The indirect impact on the economy may, however, be significant: a large amount of inputs into other sectors come from industries and sectors that are associated with high-environmental impacts, for example energy and transport. Studies of regulatory impact show that regulations impacting on competition and entry in a specific sector tend to trickle through the entire economy (Barone and Cingano, 2011; Bourles et al., 2013). Moreover, a number of the high environmental impact sectors are open to international trade and thus concerned directly with international competitiveness (OECD, 2006).

Again, the importance of designing environmental policies in the most flexible and competition-friendly way goes well with country priorities on lowering barriers to entry, innovation and competition and improving the flexibility of the economy.

The competition friendliness aspect of environmental policies is captured by a new OECD questionnaire-based indicator of burdens on the economy due to environmental policies (BEEP).[4] Examples of common aspects of environmental policies that can provide advantages to incumbent firms include high administrative burdens to new entry; vintage differentiated regulations, where new firms are subject to stricter environmental limits; subsidies or other benefits (e.g. public procurement) for a historical environmental record or improvements (which new firms may not be able to show even if being cleaner than older firms); tax breaks for investments in improving environmental performance (which new firms, that do not yet have profits, may not be able to benefit from) and grandfathering of licenses and permits. Hence, the indicator summarises information on administrative burdens on entry, such as the complexity and design of environmental permit and licensing procedures; the use of environmental regulations that directly impede competition and favour incumbents over new entrants in various ways; and the extent to which economic considerations are (or are not) taken into account when designing, implementing and conducting environmental policies. The results show wide cross-country differences (Figure 3.5).

Figure 3.5. **Indicators of burdens on the economy due to environmental policies (BEEP)**



Note: Responses are scored and aggregated within each category and among categories. Equal weights are used at each level. The final scale is 0 to 6, where 0 is the most friendly to competition: lowest administrative burdens, least use of policies that directly impede competition (favouring incumbents), and well-established practices of evaluation of economic effects of environmental policies – both for new policy proposals as well as for the existing policy setup. For the United States, it was not possible to establish a value for the question on the maximum legal length of permitting procedures. A middle-range value was assumed to enable comparison on overall indicator values.

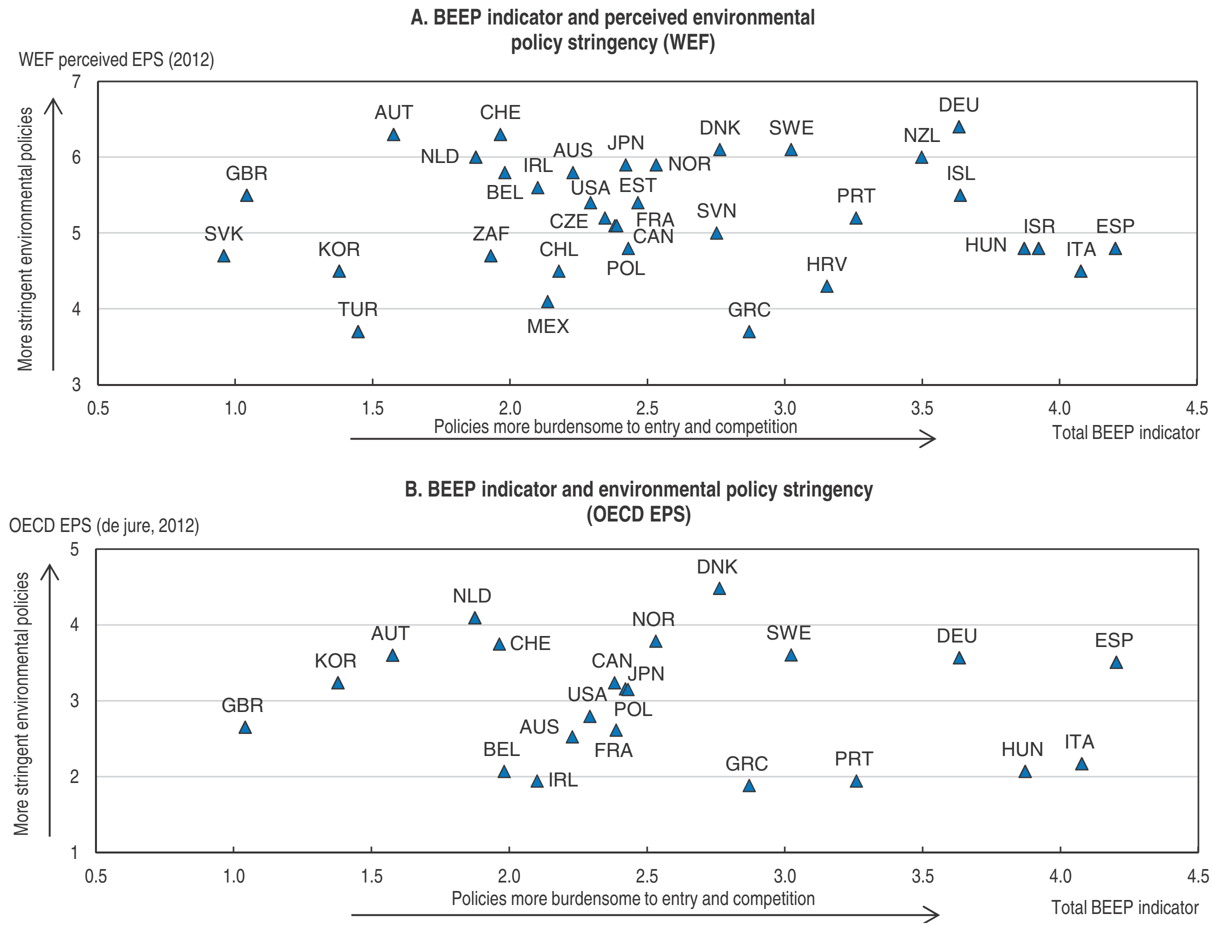
Source: Albrizio, S. et al. (2014), "Do Environmental Policies Matter for Productivity Growth? Insights from New Cross-Country Measures of Environmental Policies", *OECD Economics Department Working Papers*, No. 1176, *http://dx.doi.org/10.1787/5jxrjncjrcxp-en*.

StatLink http://dx.doi.org/10.1787/888933177522

High barriers to entry and competition, increased market concentration and risks of anti-competitive behaviour may be by-products of environmental policies, but appropriate policy design can minimise these adverse effects. An important finding from comparing the BEEP indicator with measures of EPS is that the competition dimension of environmental policies is not related to their stringency (Figure 3.6). Across OECD countries, there are examples of relatively stringent environmental policies coupled with low barriers to entry and competition (Austria, Belgium, the Netherlands, Switzerland and the United Kingdom), and examples of relatively low EPS but where environmental policies would benefit from being made more pro-competitive and flexible (Greece, Hungary, Israel, Italy, Portugal and Spain).

While more work is needed to better understand the effects, the evidence above makes a strong case for well-designed environmental policies. Stringent policies that are flexible and do not impose high barriers to entry, can and should be pursued to support both economic and environmental objectives. They can help ensure that pro-growth policy reforms do not boost short-term growth at the expense of environmental degradation which would potentially lead to subdued wellbeing and growth in the longer term.

Figure 3.6. **Stringent environmental policies do not need to imply high barriers to entry and competition**



Note: Panels show scatter plots between environmental policy stringency (EPS) and the burden that environmental policies pose to entry and competition (BEEP). Correlations between EPS and BEEP are not significant at 90% level in both cases.

Source: Albrizio, S. et al. (2014), "Do Environmental Policies Matter for Productivity Growth? Insights from New Cross-Country Measures of Environmental Policies", *OECD Economics Department Working Papers*, No. 1176, *http://dx.doi.org/10.1787/5jxrjncjrcxp-en*.

StatLink *http://dx.doi.org/10.1787/888933177536*

Notes

1. Evidence on the link between environmental policies and productivity growth (including the design aspects of environmental policies and the indicators of environmental policies) cited in this section is based on the joint work of the Economics Department and Environment Directorate (Albrizio et al., 2014).
2. The OECD results shed light on the effects on MFP growth, and work on other components of GDP, such as capital and labour, is currently underway to provide a fuller picture of the economic impact.
3. Product market regulation indicators generally omit the aspects related to environmental policies, such as environment-specific conditions embedded in licenses and permit procedures.
4. The BEEP indicator is based on a questionnaire and captures the state of implementation and design of environmental policies at the beginning of 2013. Since then, countries may have introduced reforms that could have affected their performance on the indicator. For example, Spain has reformed several laws (among them the Law on Environmental Assessment) aiming at reducing the burden for citizens and companies while maintaining environmental protection.

Bibliography

Albrizio, S., E. Botta, T. Kozluk and V. Zipperer (2014), "Do Environmental Policies Matter for Productivity Growth? Insights from New Cross-Country Measures of Environmental Policies", *OECD Economics Department Working Paper*, No. 1176, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jxrjncjrcxp-en*.

Ambec, S., M.A. Cohen, S. Elgie and P. Lanoie (2013), "The Porter Hypothesis at 20: Can Environmental Regulation Enhance Innovation and Competitiveness?", *Review of Environmental Economics and Policy*, Vol. 7(1), pp. 2-22.

Arnold, J., G. Nicoletti and S. Scarpetta (2008), "Regulation, Allocative Efficiency and Productivity in OECD Countries: Industry and Firm-Level Evidence", *OECD Economics Department Working Papers*, No. 616, OECD Publishing, Paris, *http://dx.doi.org/10.1787/241447806226*.

Barone, G. and F. Cingano (2011), "Service Regulation and Growth: Evidence from OECD Countries", *Economic Journal*, Vol. 121, No. 555.

Bourlès, R., G. Cette, J. Lopez, J. Mairesse and G. Nicoletti (2013), "Do Product Market Regulations in Upstream Sectors Curb Productivity Growth? Panel Data Evidence for OECD Countries", *Review of Economics and Statistics*, Vol. 95(5), pp. 1750-1768

Dellink, R.B., E. Lanzi, J. Chateau, F. Bosello, R. Parrado and K.C. de Bruin (2014), "Consequences of Climate Change Damages for Economic Growth: A Dynamic Quantitative Assessment", *OECD Economics Department Working Paper*, No. 1135, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz2bxb8kmf3-en*.

de Serres, A., F. Murtin and G. Nicoletti (2010), "A Framework for Assessing Green Growth Policies", *OECD Economics Department Working Papers*, No. 774, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5kmfj2xvcmkf-en*.

Graff Zivin, J.and M. Neidell (2014), "Environment, Health and Human Capital", *Journal of Economic Literature*, forthcoming.

Graff Zivin, J. and M. Neidell (2012), "The Impact of Pollution on Worker Productivity", *American Economic Review*, Vol. 102(7), pp. 3652-73.

Grossman, G. and A. Krueger (1995), "Economic Growth and the Environment", *Quarterly Journal of Economics*, Vol. 110(2), pp. 353-377.

Isen, A., M. Rossin-Slater and W.R. Walker (2014), "Every Breath You Take – Every Dollar You'll Make: The Long-Term Consequences of the Clean Air Act of 1970", *NBER Working Paper*, No. 19858.

Johnstone, N. and I. Hascic (2009), "Environmental Policy Design and the Fragmentation of International Markets for Innovation", *CESifo Working Paper Series*, No. 2630, CESifo, Group Munich.

Kozluk, T. and V. Zipperer (2014), "Environmental Policies and Productivity Growth – a Critical Assessment of Empirical Findings", *OECD Journal: Economic Studies*, Vol. 2014/1, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_studies-2014-5jz2drqml75j*.

Nicoletti, G. and S. Scarpetta (2003), "Regulation, Productivity and Growth: OECD Evidence", *OECD Economics Department Working Papers*, No. 347, OECD Publishing, Paris, *http://dx.doi.org/10.1787/078677503357*.

OECD (2014a), *The Cost of Air Pollution: Health Impacts of Road Transport*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264210448-en*.

OECD (2014b), "Shifting Gear: Policy Challenges for the next 50 Years", *OECD Economics Department Policy Notes*, No. 24, July 2014, *www.oecd.org/eco/growth/Shifting%20gear.pdf*.

OECD (2012), *OECD Environmental Outlook to 2050: The Consequences of Inaction*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264122246-en*.

Porter, M. (1991), "America's Green Strategy", *Scientific American*, Vol. 264(4), p. 168.

Porter, M.E. and C. van der Linde (1995), "Toward a New Conception of the Environment Competitiveness Relationship", *Journal of Economic Perspectives*, Vol. 9(4), pp. 97-118.

Chapter 4

Going for Growth ten years after: Taking a longer perspective on reform action

This chapter provides an overview of reform activity since the early 2000s in the policy areas covered by the regular set of indicators featured in Going for Growth*. It examines how policy priorities have evolved since the start of* Going for Growth *in response to actions taken as well as to shifts in challenges. It also gives an idea of the extent to which reforms in these areas have contributed to economic performance over that period.*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Main findings

- Since the first publication of *Going for Growth* in 2005, the pace of structural reforms has remained roughly constant on average across OECD countries, with the exception of a notable acceleration in 2011-12.
- The pace of reforms is now on average above its pre-crisis level in the areas of product and labour market regulation, while reforms to raise work incentives occur at a slower pace.
- Reform activity has resulted in substantial improvement in some policy settings. This is the case for product market regulation, the design of pension systems and unemployment income support programmes.
- For a majority of countries, actions taken have often been too modest to lead to the complete removal of the corresponding policy recommendations. For around half of the countries, at least four of the five policy areas identified as priorities in 2007 still prevail in 2015.
- Where the broad priority area is maintained, the nature and orientation of the more specific recommendations has usually changed over time reflecting earlier, albeit partial, progress.
- A higher turnover of priorities has been observed among some of the countries that have been reforming more actively (Australia, Greece, Portugal and the Slovak Republic).
- Overall, structural reforms implemented since the early 2000s have contributed to raising the level of potential gross domestic product (GDP) per capita by around 5%, with most of the gains coming from higher productivity.
- Further reform towards best practice could further raise potential GDP per capita by up to 10% on average across OECD countries, depending on the degree of their ambitions.

Introduction

Ten years after the initial publication of *Going for Growth*, governments in most OECD countries are still struggling to bring their economies back to the growth path that prevailed around 2005. The headwinds are impressive, and include adverse demographics, persistently high unemployment or falling labour force participation, slowing productivity, high public debts and deficits and the lingering effects of the financial crisis which still affect the functioning of the financial sector. Addressing these challenges requires commensurate and steady policy changes. While the crisis has prompted significant reforms, this chapter takes stock of the changes in the many policy areas covered in *Going for Growth* over a longer period, and gives an idea of the extent to which this has contributed to economic performance.

Since 2005, every second year *Going for Growth* has provided member countries with five priorities to lift GDP per capita. This has relied on identifying successful national policy experiences, while making allowance for differences in national preferences, thus avoiding the “one-size-fits-all” pitfall of policy prescriptions. Based on a systematic monitoring, anchored on a set of indicators of policies and performances, *Going for Growth* tries to assess the extent to which divergences in performance reflect differences in the effectiveness of public policies rather than differences in social preferences.

On the basis of this framework, *Going for Growth* has delivered policy priorities and concrete recommendations for each individual OECD member country, the European Union and, since 2010, for Brazil, the Russian Federation, India, Indonesia and China (BRIICS). This has been a complement to the *OECD Economic Surveys*, which periodically provide an in-depth review of individual member countries economics challenges as well as detailed policy prescriptions. The set of policy priorities and related recommendations have contributed to shaping the policy agenda within countries, but also in the context of the G20 work programme.

A retrospective assessment of reforms in OECD countries

The overview of structural reforms undertaken by OECD countries during the last decade relies to a large extent on information that has been featured in *Going for Growth* over the years (see Chapter 1):

- The so-called "*Reform Responsiveness Index*", which has been regularly used to monitor progress on country-specific priorities, and presented for its last update in Chapter 1.
- The changes in the policy indicators, across countries and over the last decade – with latest data generally referring to the year 2013.

The analyses that can be drawn from these two sources are different in nature and in fact complement each other (Box 4.1). This section first reviews the extent to which OECD countries have followed up on *Going for Growth* recommendations since 2007[1] and continues by quantifying the importance of the reforms undertaken.

A follow-up on Going for Growth recommendations over time

OECD countries appear to have followed up on *Going for Growth* recommendations to a greater extent in labour productivity-enhancing reforms than in labour utilisation-enhancing ones since 2007, but overall differences between the two areas are relatively narrow (Figure 4.1). Policy responses to priorities aimed at boosting productivity levels have been strongest in the fields of innovation and product market regulation. Actions taken to raise labour utilisation have been most widely seen in labour taxation, incentives to work for second earners and active labour market policies.

Over time, reform activity has gone through distinct phases. During the recession (2009-10), reform activity slowed relative to the pre-crisis period (2007-08), reflecting the more urgent focus on macroeconomic stabilisation. The slowdown was visible in most areas (the most notable exceptions being tax structure, labour regulation and labour costs). Then, the aftermath of the crisis (2011-12) saw reform action accelerating significantly, with the bounce-back being strongest in labour productivity-related reforms, as well as in social protection (in part under the pressure of fiscal consolidation) and active labour market policies to cope with the sharp and persistent rise in unemployment following the recession.

However, the post-crisis pick-up in policy actions appears to be losing steam, with OECD countries showing signs of reform slowdown in almost all areas. Still, the intensity of reform remains on average slightly above its pre-crisis level in product market regulation and tax structure areas, while reforms aimed at boosting labour utilisation occur at a markedly lower pace, notably in the fields of labour taxation and work incentives.[2]

Box 4.1. **Qualitative and quantitative assessment of progress in policies**

The main sources to measure progress in policies in *Going for Growth* are twofold. The first is the *Reform Responsiveness Index*, a qualitative indicator based on a scoring system in which recommendations set in the previous issues of *Going for Growth* take a value of one if "significant" action is taken and zero if not. For each policy area, the index is therefore calculated as the ratio of the total number of years in which some action towards addressing the policy weaknesses is taken to the total number of years in which some action could potentially be taken.

The second is a set of quantitative policy indicators which are intended to provide a summary of the stance of policy in various areas: product and labour market regulation; social protection; education and training; taxation; foreign trade and investment; and innovation. They are all internationally comparable and have been linked empirically by the OECD to various aspects of economic performance. As such, they form the basis for setting policy priorities.

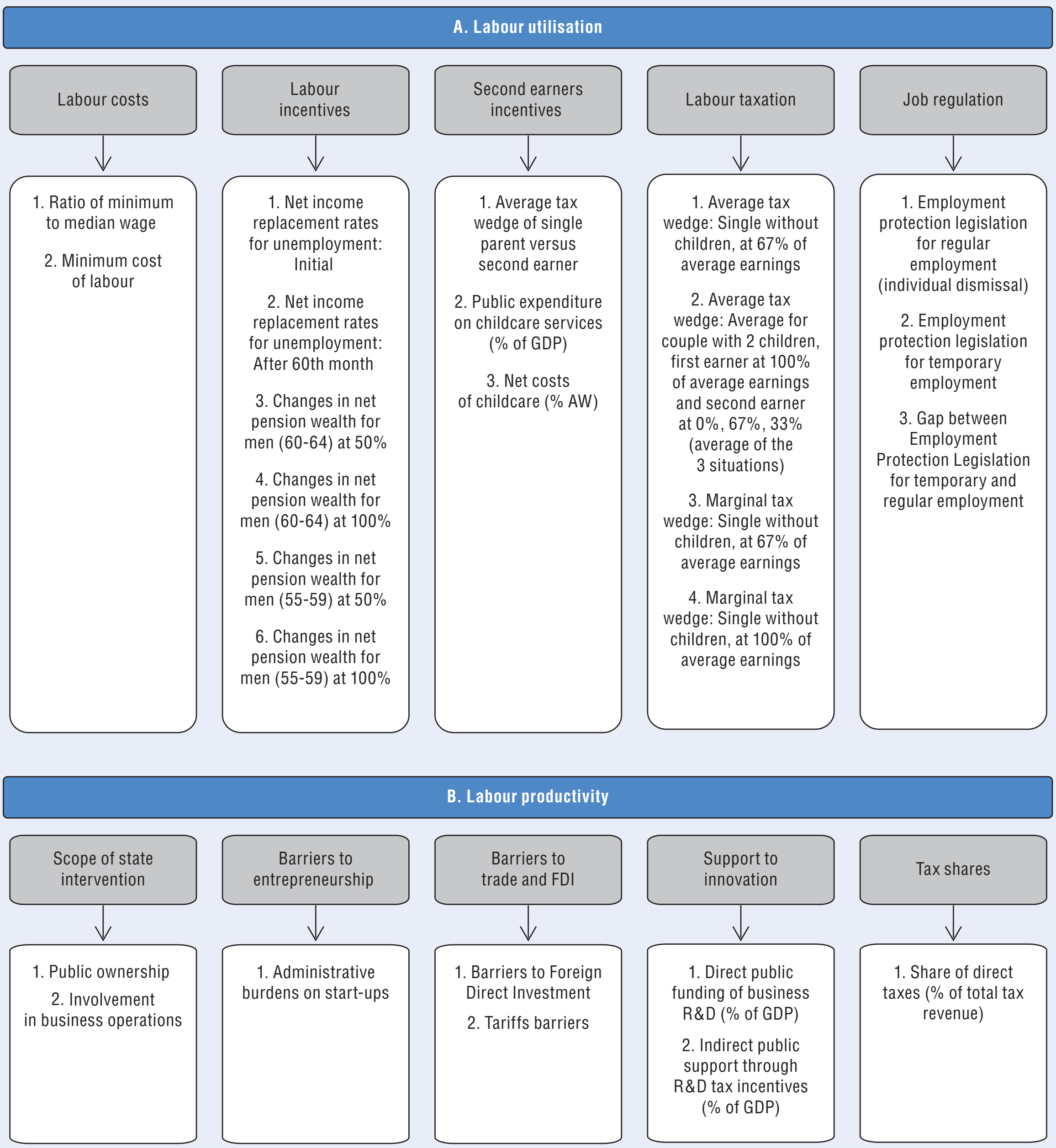
The two main sources complement each other, in part because they bear separate advantages and limitations:

- *Comprehensiveness:* the *Reform Responsiveness Index* allows a comprehensive coverage of all reforms undertaken in priority areas since 2007. By contrast, some quantitative policy indicators lack information that would better reflect the cost-effectiveness of policy settings or programmes. Such is the case of active labour market policies, support to innovation and more generally the provisions of public services. The *Reform Responsiveness Index* also covers progress in the area of education, which is one of the most important and frequent recommendation. But education priorities are set in *Going for Growth* on the basis of educational outcomes data, reflecting the lack of policy indicators in this area. Due to this limitation, this area will not be covered in the remainder of this chapter.
- *Timeliness:* the *Reform Responsiveness Index* is up-to-date and allows tracking reforms in real time, including most recent (2014) information on early stages of reforms. On the contrary, not all quantitative policy indicators are available on a timely basis. Some of them rely on country responses to detailed questionnaires (like product market regulation indicators), which can take some time to be completed and reviewed by the OECD; currently the latest vintage is 2013 for most of the indicators.
- De facto *vs.* de jure: policy indicators are generally *de jure* indicators, reflecting the current stance as given by the law. But *de facto* settings may differ. For example, business perceptions of barriers to competition could be perceived as high despite a relaxed legal environment measured by the policy indicator, due to weak implementations of laws in practice.
- Intensity: the *Reform Responsiveness Index* is based on a qualitative assessment of recent reform progress on priorities. This assessment is done in collaboration with country desks experts. But it does not aim to assess overall reform intensity *per se*. This stands in contrast with policy indicators which are better suited to quantify the importance of individual measures.
- Direction of reform: The *Reform Responsiveness Index* does not allow for attributing negative scores when reforms are introduced that go against the corresponding recommendation, while policy indicators do.

To ease readability, information on each individual policy area provided by the *Reform Responsiveness Index* and the structural policy indicators have been grouped into eight broader areas in the remainder of the chapter (Figure 4.1). The first five categories regroup policies that are primarily influencing employment whereas the other three comprise productivity-enhancing policies.

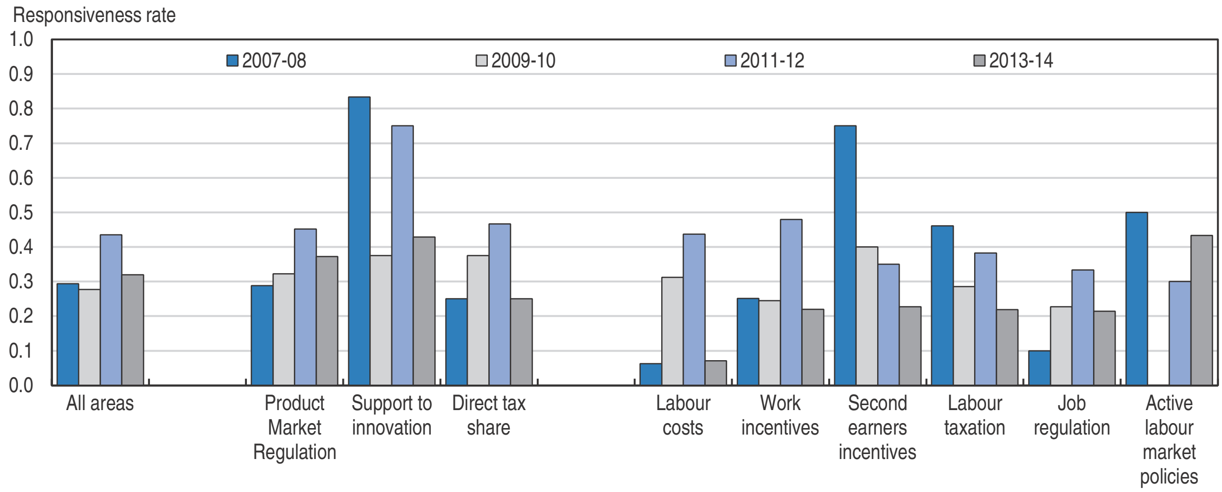
Box 4.1. **Qualitative and quantitative assessment of progress in policies** *(cont.)*

Grouping of individual areas



The time-profile of reform intensity raises the question of whether there has been a shift in policy priorities over time. A look at the share of priorities by policy areas on average across countries shows that they have remained fairly stable over time (Table 4.1). Among policies to boost employment, a substantial increase has been observed in the areas of active labour market policies and unemployment benefits, whereas pension systems and disability benefit schemes have become less important over time, as a result of the more intense actions taken in these areas. In the case of productivity-enhancing

Figure 4.1. **The pace of reforms has varied across policy areas**



StatLink http://dx.doi.org/10.1787/888933177546

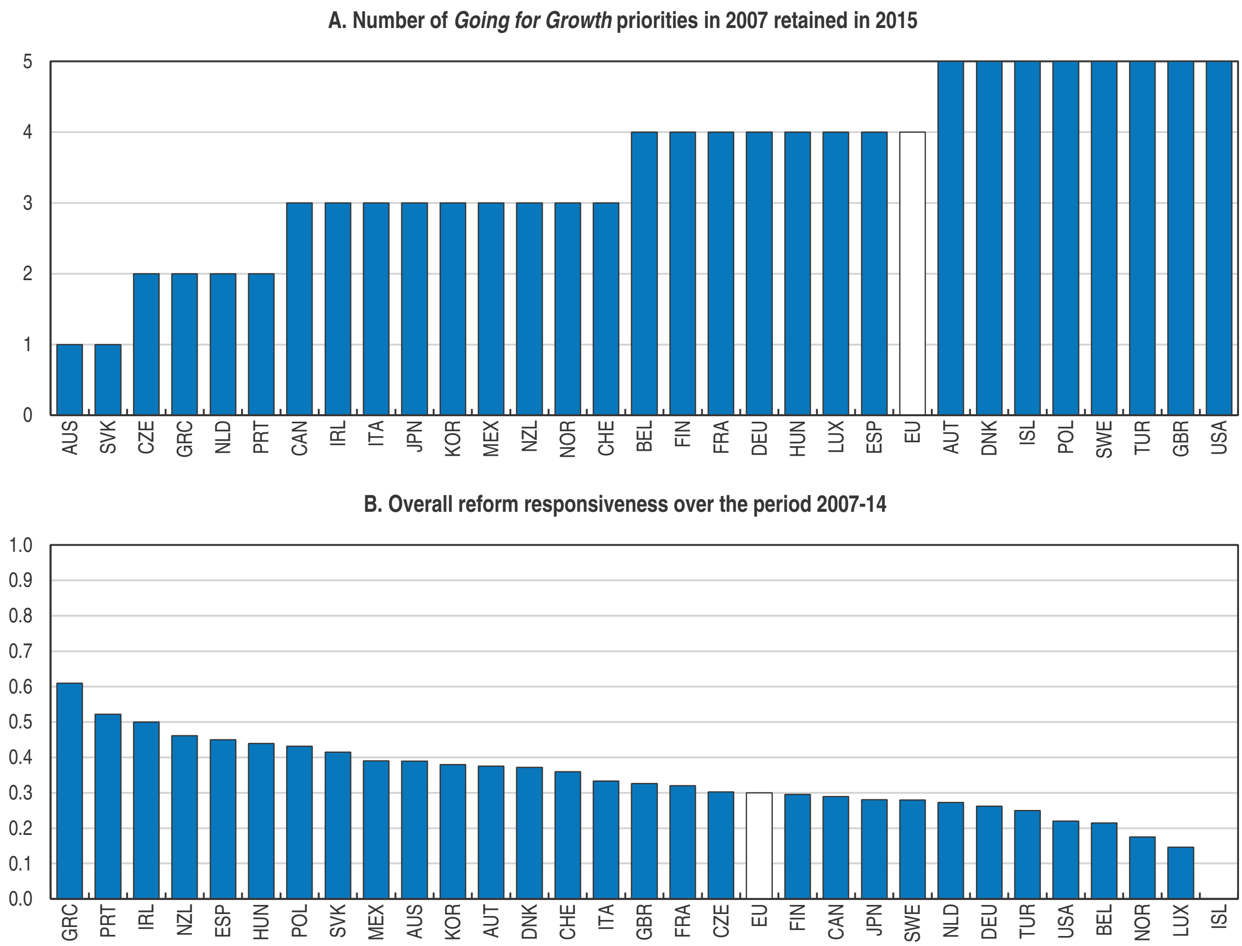
Table 4.1. **Evolution of *Going for Growth* priorities by area**

The share of *Going for Growth* priorities by area (percentage)	2007	2011	2015
Labour utilisation			
Tax system – emphasis on the level of labour tax wedges	9	8	7
Social benefits and active labour market policies (ALMPs)	15	14	17
ALMPs and unemployment benefits	4	5	10
Retirement and disability schemes	11	9	6
Retirement systems	6	6	4
Disability and sickness schemes	5	3	2
Policy barriers to full-time female participation	5	3	5
Labour Market Regulation and Collective Wage Agreements	11	11	9
Job protection legislation	6	8	6
Minimum wages and wage bargaining systems	5	3	3
Housing/planning policies/barriers to labour mobility	3	2	2
Total labour utilisation	**42**	**38**	**39**
Labour productivity			
Human capital	14	15	16
R&D and innovation policies	2	2	6
Product market regulation, trade and FDI	24	25	21
Agriculture and energy subsidies	5	4	5
Tax system – structure and efficiency	3	5	5
Efficiency of public spending	5	5	4
General efficiency	3	3	2
Efficiency of the healthcare sector	2	2	2
Public infrastructure	2	2	2
Legal infrastructure and the rule of law	2	1	1
Financial market regulation	1	1	0
Housing/planning policies/barriers to labour mobility	1	1	1
Total productivity	**58**	**62**	**61**
Total number of priorities	**155**	**175**	**175**

reforms, recommendations to improve the size and efficiency of the support to innovation have gained prominence, while the importance of product market reforms has diminished somewhat.

Looking at the evolution of priorities by country, the share of those that have been retained throughout the years is fairly large (Figure 4.2, Panel A). In 2015, 80% of the countries have at least three policy priorities that were already selected in 2007, while for 25% of the countries, all (i.e. the five) priorities set in 2007 are still featured in 2015. Hence, while actions taken in response to *Going for Growth* recommendations have been rising over time, this has not, by and large, resulted in the removal of corresponding policy priorities, except in a few countries.

Figure 4.2. **A large share of priorities has been retained over the years**



StatLink http://dx.doi.org/10.1787/888933177554

The relatively low turnover also indicates that when action is taken, the extent of reform falls short of what is needed to fully address the weakness. Nonetheless, a comparison of the overall reform intensity across countries over the period 2007-14 (Figure 4.2, Panel B) shows that at least for some of the most active countries, a higher turnover of priorities has been observed (Australia, Greece, Portugal and the Slovak Republic). And in many cases where the priority area is maintained, the nature and orientation of the more specific recommendations has changed over time, reflecting earlier, albeit partial, progress. To get a better feel for the importance of reform actions conducted since the early 2000s, the analysis based on responsiveness rates is complemented by information from the quantitative indicators of policy settings.

Summarising reform patterns

Going for Growth covers a broad set of indicators measured with a great deal of heterogeneity. Individual indicators can thus be normalised and regrouped into broader policy categories, in order to highlight patterns and measure magnitudes in ways that are comparable across broad policy areas (Box 4.2). This procedure first converts the indicators into a common scale and then aggregates them across broad policy areas to ease readability and comparability.

Box 4.2. **Computing structural policy scores**

Structural policy scores computed by broad policy areas build on a bottom-up approach that enable to trace them back to the individual policy indicators, according to the grouping of Figure 4.1. Each individual policy indicator P_{ijt} for country i and policy j at time t is first normalised according to the historical minimum and maximum observed during the period 2000-12 across countries. In particular, the cross-country historical maximum is set as the best practice toward which the position of countries over the years will be gauged. Depending on whether an increase or a decrease in the policy is growth-enhancing according to the *Going for Growth* framework, each P_{ijt} is either normalised from above or below, that is:

$$P^N_{ijt} = 100 * \frac{P_{ijt} - Min_{\{l,t\}}\left\{P_{ljt}\right\}}{Max_{\{l,t\}}\left\{P_{ljt}\right\} - Min_{\{l,t\}}\left\{P_{ljt}\right\}}$$

$$\text{or } P^N_{ijt} = 100 * \frac{P_{ijt} - Max_{\{l,t\}}\left\{P_{ljt}\right\}}{Min_{\{l,t\}}\left\{P_{ljt}\right\} - Max_{\{l,t\}}\left\{P_{ljt}\right\}}$$

This normalisation allows each policy indicators, which now varies between 0 and 100, to measure the distance a country has still to travel in order to achieve what is regarded as the best policy practice, i.e. 100. The scores obtained form then the low-level information of a tree structure, which are then aggregated by broad policy areas into k higher-level composite scores S^N_{ikt} (see Table 4.A1.1 of the annex). Those are calculated as weighted averages of their low-level indicators, using equal weights for the aggregation.

Reform patterns have led to convergence in policy settings across countries

In general, countries have converged toward best practices: that is, countries most distant from best practice in 2000 are the ones that made largest improvements over the period. Areas where strongest convergence has been achieved are also the ones where the magnitude of reforms undertaken has tended to be the highest. Reform actions over the last decade have effectively led to convergence in structural policy settings. This is illustrated in Figure 4.3, which shows the changes observed in countries in specific policy areas over the period 2000-12 against the initial level in 2000. Cases of convergence in policy settings are reflected by downward sloping trend lines with slopes equivalent in this setting to a test of convergence.[3] The steeper the downward trend line, the stronger the convergence and thus the greater the reforms intensity. In this setting, the results indicate that some convergence has taken place in most areas, albeit to varying degrees.

Figure 4.3. **Structural policy settings have generally converged across countries**

Changes in policy indicators over the period 2000-12

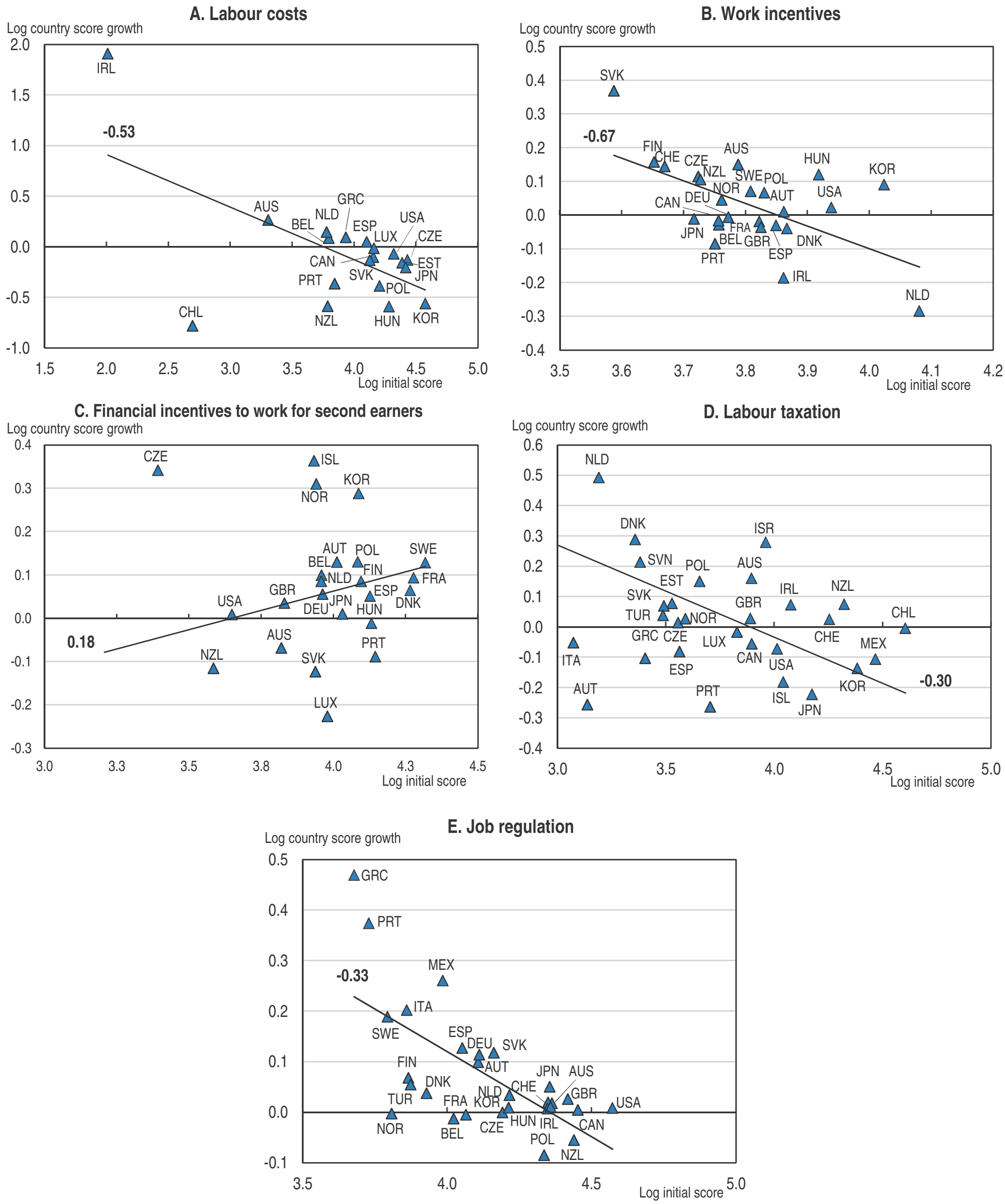
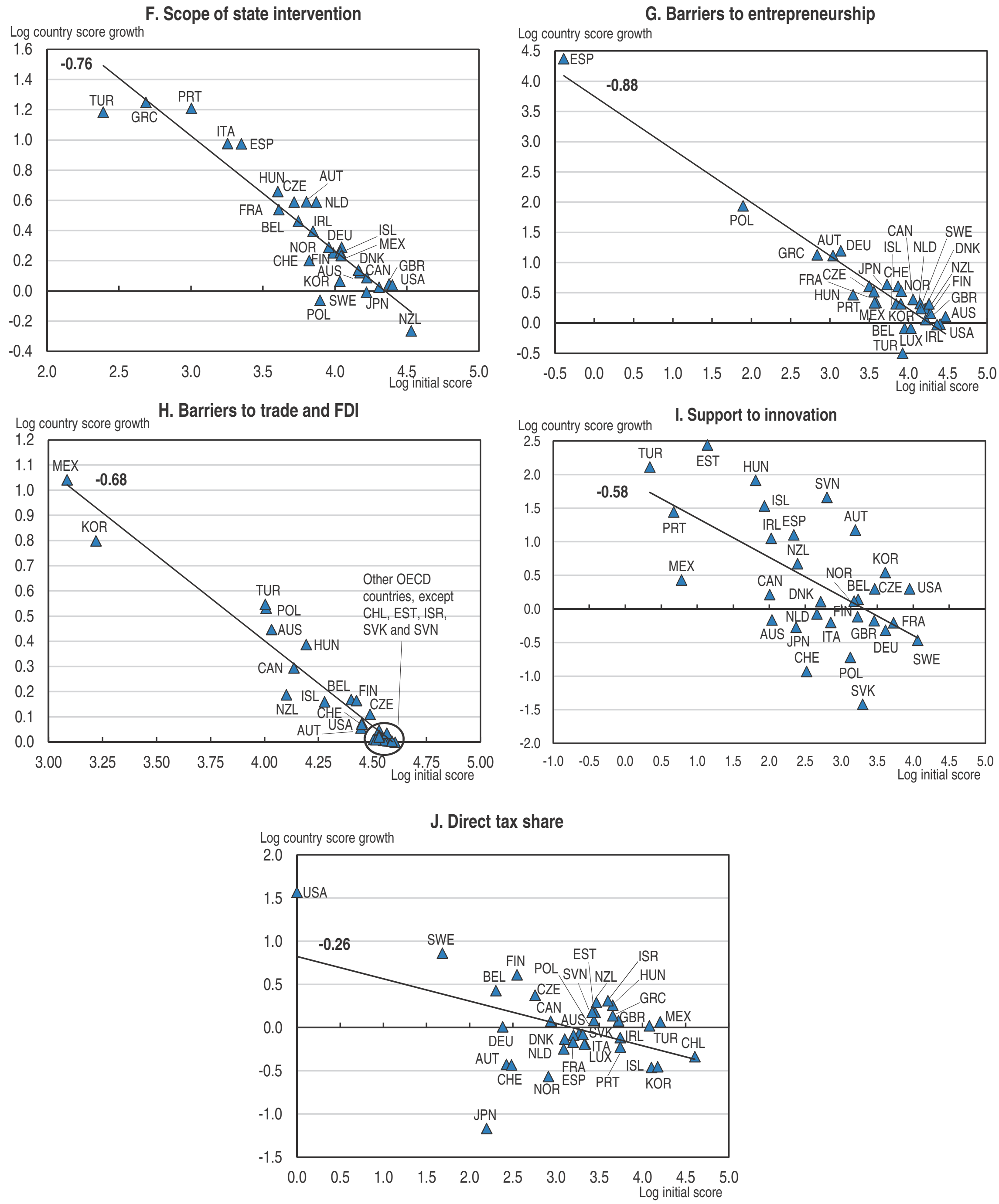


Figure 4.3. **Structural policy settings have generally converged across countries** *(cont.)*

Changes in policy indicators over the period 2000-12



Note: The slopes of the trend lines, in bold on each graphs, denote (in absolute value) the intensity of convergence that took place (see Endnote 3 for details).

StatLink http://dx.doi.org/10.1787/888933177569

Major reforms happened in product market regulation[4]

Product market regulation has been an area where high reform activity as monitored in *Going for Growth* translated into substantial policy change: strong convergence has been reached during the last decade, pointing to an ambitious reform agenda to close the gap *vis-à-vis* best practices in regulatory barriers to competition. This is the case in particular for the scope of state intervention (with an intensity of convergence of 0.84), barriers to entrepreneurship (0.89), and to a lesser extent for barriers to trade and FDI (0.64). As a result, impediments to aggregate productivity and innovation due to unduly restrictive regulations have been significantly reduced over the last decade, and OECD countries are now relatively close for many regulatory aspects covered in the indicators available.

However, some heterogeneity across countries and areas remains (Figure 4.A1.1):

- Some countries still have a large government influence in firms' operations (in particular Poland and Turkey). But overall, the pervasiveness of state control decreased in the average OECD country and for most of countries individually.
- The current stance of regulatory barriers to entrepreneurship is the result of considerable easing over the past 10-15 years in almost all countries. Some are however still lagging behind, or have even reinforced restrictiveness in this field (Turkey and to a lesser extent Belgium, Chile, Luxembourg and Korea). The lowest barriers to entrepreneurship are found in Denmark, the Netherlands, New Zealand and the Slovak Republic.
- While almost all countries reduced barriers to trade and FDI, former highly restrictive countries, in particular Korea and Turkey, undertook significant reforms.
- Overall, OECD countries who adopted a more competition-friendly regulatory stance in one of the three areas covered by the product market regulation indicators also improved their stance in the other two areas.

Substantial reforms also took place to remove disincentives to work

Despite slightly less reform activity to boost labour utilisation over the years, some of the actions in this area resulted in substantial policy changes. In fact, high convergence took place in the broad category of work incentives (0.63), but with significant differences across the more specific policy instruments covered in this category. For instance, countries have made sizeable progress in making non-employment benefits more work oriented but to a different extent between early retirement schemes, pension systems and disability benefits:

- In most countries where early routes to labour force withdrawal prevailed, they have been significantly curtailed or simply closed. One of the key measures taken in a number of countries has been the phasing out of job search exemptions for workers aged 55 or above, which allowed them to go on unemployment benefits as a bridge to pension. As a result, the labour force participation of older workers has held up surprisingly well during the last crisis, relative to that of other categories of workers.
- Pension systems have also been an area of major reforms since the early 2000s, with small steps towards greater incentives to remain in the workforce taken in several countries. In particular, countries with initially high levels of disincentives to pursue activity at the age of pension eligibility (e.g. Belgium, Greece, Hungary, Italy, France, the Slovak Republic and Sweden) have seen significant improvement in pension settings (Figure 4.A1.2). However, in a number of countries where the main pension is funded on a pay-as-you-go basis, uncertainties remain as regards long-term financial sustainability.

- One area where reforms have been more difficult is disability benefit programmes. In many countries, the closure of early routes to retirement and the tightening of eligibility conditions to unemployment insurance have raised the risk of seeing a substantial increase in the number of disability benefit recipients. While the number of recipients remains high in many countries, governments have focused on reducing the flow into disability through improved gate-keeping measures. Among the countries facing a relatively high percentage of population receiving benefits, substantial reductions have been observed in Hungary and Sweden, and to a lesser extent, the Netherlands and the United Kingdom.

In the provision of income support for the unemployed, the OECD summary measure of net replacement rates indicates that the magnitude of reforms has been fairly modest over the last 15 years (Figure 4.A1.3). Furthermore, aside from the Slovak Republic and Switzerland, significant reductions took place in countries (such as Australia, Greece, Korea, New Zealand and the United States) where the replacement rate in the initial year of unemployment was not comparatively high in the early 2000s. At the same time, many countries have raised the income replacement rate in the initial year of unemployment, with most substantial increases found in Iceland and Italy.

By contrast, reductions in the replacement rate for long-term unemployed have been more widespread and also generally more substantial in countries where the level of support was most generous in the early 2000s (e.g. Denmark, Norway and Slovak Republic). However, reforms in this area have gone well beyond adjustments in replacement rates. In order to reduce disincentives to take-up work, governments have used a mixture of carrots and sticks, combining the tightening of eligibility conditions (e.g. minimum number of work weeks required for entitlement), with the reinforcement of job search requirements and sanctions and the possibility to cumulate benefits and earnings up to a time and threshold limits.

Reforms to remove high labour costs and step-up second earners incentives have been important but only for some countries

At first glance, the overall pattern in the reduction of minimum labour costs points toward a relatively strong convergence (0.76) and thus the implementation of reforms of considerable importance. But this conclusion is almost entirely driven by a small group of countries, in particular Ireland and to a lesser extent Australia, Greece and the Netherlands, which undertook important reforms to reduce initially high labour costs (Figure 4.A1.4).

In the related area of labour taxes, the widespread increases in deficits and debts following the crisis have made more difficult the pursuit of reductions in labour tax wedges in recent years. While tax wedges have been lowered in a majority of countries since 2000, the reductions have been small in most cases (Figure 4.A1.5). To limit budgetary costs, governments have to some extent targeted reductions on low wages, where the impact on employment is likely to be the largest.

The extent of reforms has also been more mixed in the case of disincentives to work for second earners, reflecting substantial differences in the magnitude and sometimes direction of actions across the more specific policy instruments:

- Looking at the relative taxation of household members (Figure 4.A1.6, Panel A), little action has been taken over the years to remove tax bias against second earners. In contrast, public expenditure on childcare services (as a ratio of GDP) has risen significantly in a large majority of countries, with particularly large increases observed in Iceland and Sweden and, to a lesser extent, Ireland, Korea, New Zealand, Norway and the United Kingdom.

- While this has contributed to increase the provision of childcare services, the net cost for parents depends also on fees as well as benefits in the form of either tax reduction or child-related transfers. Measures affecting the net cost of childcare for lone parents or couples went in different directions. Such costs fell significantly in Korea, Norway and Switzerland, but substantial increases were observed in Luxembourg, the Netherlands and the Slovak Republic (Figure 4.A1.6, Panels B and C).

Reforms to support innovation have been more moderate and scattered

Specific recommendations have been regularly made to increase the level and efficiency of public support to innovation, including regarding the mix between direct and indirect (through tax incentives) support. Since the early 2000s, countries have tended to follow-up on these recommendations and reform activity in this area has been high. However, the mild degree of convergence achieved (0.54) points to relatively low magnitude of reforms.

In fact, indirect support through tax incentives increased in a large set of countries, including in Ireland, Belgium, France and the Netherlands where resources devoted to supporting innovation as a share of GDP have risen substantially (Figure 4.A1.7). But other countries, notably Italy, Mexico and New Zealand, no longer provide indirect support. Reforms in direct support to R&D display an even more scattered pattern, with some countries having markedly reduced their direct support (Germany, France, Israel and Sweden), while others raised it considerably over the period (Austria, Hungary, Korea and Slovenia).

Reforms in taxation and labour regulation have results in fairly modest changes in policy settings

In line with the relatively low reform activity in the areas of taxation and labour regulation, the respective policy stances have not changed markedly since the early 2000s (Figure 4.A1.8):

- In many countries, too stringent procedures and conditions for lay-offs combined with high severance payments have contributed to the persistence of high unemployment by discouraging hiring. In part to reduce persistence, reforms have initially focused on easing the rules and conditions on fixed-term contracts, creating thereby two-tier regimes of employment protection, with different and asymmetric degrees of restrictions on open-ended and fixed-term contracts. The greater use of fixed-term contracts has been facilitated through sizeable reforms in Germany, Italy, Japan, Korea, Portugal, Spain and, more recently Greece and Mexico. But on average, reforms conducted in other countries have been modest.
- Significant reforms of open-ended contracts have been less widespread, with restrictions eased significantly in Austria, the Czech Republic, Greece, Hungary, Ireland, Japan, Portugal and the Slovak Republic. Yet, large differences remain across countries and the adverse consequences of growing labour market duality, notably in terms of equity and productivity, has stressed the need for narrowing the gap in protection between open-ended and fixed-term contracts.

Policy recommendations to improve the efficiency of tax systems have been regularly featured in *Going for Growth*. In particular, shifting the structure of taxation away from direct taxes toward consumption (and immovable property) has been promoted as a measure to raise efficiency and lift output (see OECD, 2009). While some countries moved to a more favourable tax mix (Belgium, Finland, Germany, Sweden and the United States), most countries left their structure of taxation globally unaltered (Figure 4.A1.9). A few countries shifted heavily and away from indirect taxes (Chile and, to a lesser extent, Iceland and Korea).

Realised and potential gains from structural reforms in OECD countries

Accounting for gains in structural reforms

This section provides a rough quantitative assessment of past structural reforms on potential GDP and a set of illustrative scenarios centred on reforms leading to further convergence toward best policy practices. The analysis relies on a simple estimation approach for measuring the effects of structural reforms on output potential in a consistent and comparable way across policy areas (Box 4.3).

Gains from past reforms

The estimated average effects of past structural reforms undertaken between 2000 and 2012 on potential output are sizeable (Figure 4.4). Indeed, they suggest that once their impact has fully materialised structural reforms will have contributed to raise the level of GDP per capita by around 5%, which is about one-fifth of the observed increase on average across OECD countries between 2000 and 2012. In terms of policy areas,[5] reforms of product market regulation and support to innovation have lifted potential GDP by 4%, while 1% was reaped from labour utilisation-enhancing reforms. This is mostly explained by the strong convergence that took place in product market regulation, an active field of reforms which generated in return significant gains. Lower convergence in labour market policies, due partly to the fact that a number of reforms in this area went in the direction opposite to *Going for Growth* recommendations for some countries, reduced their impacts on average. More generally, productivity-enhancing reforms tend to have a larger cumulative impact on potential output in the long run compared to labour utilisation-enhancing measures (see Bouis and Duval, 2011).

Overall, reforms identified in *Going for Growth* are estimated to have delivered large output gains. The magnitude of the estimated effects varies widely by country, with countries with the initially least growth-friendly policies having obtained considerable gains from reforming, while some countries with more pro-growth initial policy stance have had smaller estimated gains. However, despite the relatively high degree of convergence achieved since the early 2000s in structural reforms, large untapped gains still prevail, should the convergence process continue further.

Potential gains from additional convergence

A recent estimate of the effects of the crisis on productive capacity of OECD countries points to a median loss in the level of potential output of 3.4% in 2014 relative to its pre-crisis path (see Ollivaud and Turner, 2014 and Ball, 2014 for an alternative estimation). Based on these estimates, most of this drop is attributed to lower productivity and lower capital per worker, and to a lesser extent by lower potential employment. This last factor is

Box 4.3. **A simple framework to measure the impact of structural reforms on output potential**

A wide body of empirical evidence has been generated over the years on the effects of structural reforms on various aspects of economic performance (see e.g. De Mello and Padoan, 2010; Barnes et al., 2011; Bouis and Duval, 2011). The present analysis aims to provide a stylised quantification of the impact of policies. As a result, it uses a framework that is simpler but also far less elaborate than these alternative approaches.

The effect of structural policies on potential GDP per capita is gauged using estimated multipliers for the average OECD country. It starts from potential GDP per capita and its standard decomposition into productivity and labour utilisation components. Each of these terms is normalised through the same procedure as outlined in Box 4.2, i.e. they are transformed so as to range between 0 and 100 according to the cross-country historical minimum and maximum observed between 2000 and 2012 across OECD countries. The impact of structural policies on potential GDP components is then assumed to conform to the following specification:

$$\Delta ln(SUBGDP^N_{iht}) = \beta_0 + \beta_1 \Delta ln(S^N_{ikt}) + \beta_3 ln\left(GDP^N_{it-1}\right) + \beta_2 D_{2008.2009} + \varepsilon_{iht} \text{ for h = \{productivity; labour utilisation\}}$$

where:

- $\Delta ln(SUBGDP^N_{iht})$ is the growth rate in potential productivity or labour utilisation scores between year *t* and *t-1* for country *i*.
- $\Delta ln(S^N_{ikt})$ is the growth rate of the composite policy score (or the set of policy scores) between year *t* and *t-1* for country *i* in area *k*.
- GDP^N_{it-1} is the lag of potential GDP score for country *i* to account for convergence.
- $D_{2008.2009}$ is a time dummy for the years 2008 and 2009.
- ε_{iht} is an error term.

The equation includes country fixed-effects and is estimated using a clustered correction for standard-errors. The time dummy for the years 2008 and 2009 aims at capturing the effects of the recession on post-crisis trend in potential output (see OECD, 2014; Ball, 2014). Assuming there are declining marginal gains in closing the gap with best practices, and so that a country moving from a score of 20 to 40 in a given policy area will not achieved the same gains as a country moving from 70 to 90, the econometric specification uses changes in the growth rate of composite policy scores but not changes in score points.

The product of the estimated parameters of interest β_1 for each composite policy score (table below) with observed or simulated growth rate in the composite policy score gives the effects of structural reforms on potential productivity or labour utilisation. Belgium, Estonia, Italy, Luxembourg and Spain have been excluded from the simulations as those countries turned out to have a disproportionate effect on the estimations. Also, the simulations lead sometimes and for some countries to an overall impact of structural reforms higher than the increase in potential output. These two limitations point to some unobserved heterogeneities and endogeneity issues due to omitted variables not captured in the present framework, and plead for further investigations in order to account for country-specific circumstances.

The simulation framework implies that, across different countries and magnitudes of reforms, the marginal effects of reforms on GDP are homogeneous. It implies also that the simulations provide estimates of the long-run effects of reforms; their short-term dynamics and the transition along the growth paths are not captured (in particular reforms are not assumed to be phased in gradually). Finally, the model also does not consider that actions in different structural policy domains are interconnected and often mutually reinforcing. In particular, it is not possible in such a simple framework to identify the types of transmission channels that can be featured using a general equilibrium approach (e.g. Annicchiarico et al., 2013; Lusinyan and Muir, 2013).

Box 4.3. **A simple framework to measure the impact of structural reforms on output potential** *(cont.)*

Estimation results

Dependent variable	Labour utilisation					
Composite score	[1]		[2]		[3]	
Labour costs	0.019***	*0.002*				
Work incentives			0.015***	*0.001*		
Second earners incentives			0.011**	*0.005*		
Labour taxation	0.018***	*0.004*				
Job regulation					0.005*	*0.003*
R-squared	0.565		0.537		0.507	
Dependent variable	Productivity					
Composite score	[1]		[2]		[3]	
Scope of state intervention	0.029***	*0.004*				
Barriers to entrepreneurship	0.032***	*0.003*				
Barriers to trade and FDI	0.022**	*0.008*				
Support to innovation			0.005*	*0.003*		
Direct tax share					0.001	*0.001*
R-squared	0.598		0.564		0.495	

Note: Standard errors in italic. The symbols (*, **, ***) denote respectively statistical significance at 10, 5 and 1% level. Significance levels are cluster-robust. Support to innovation is detrended before estimation.

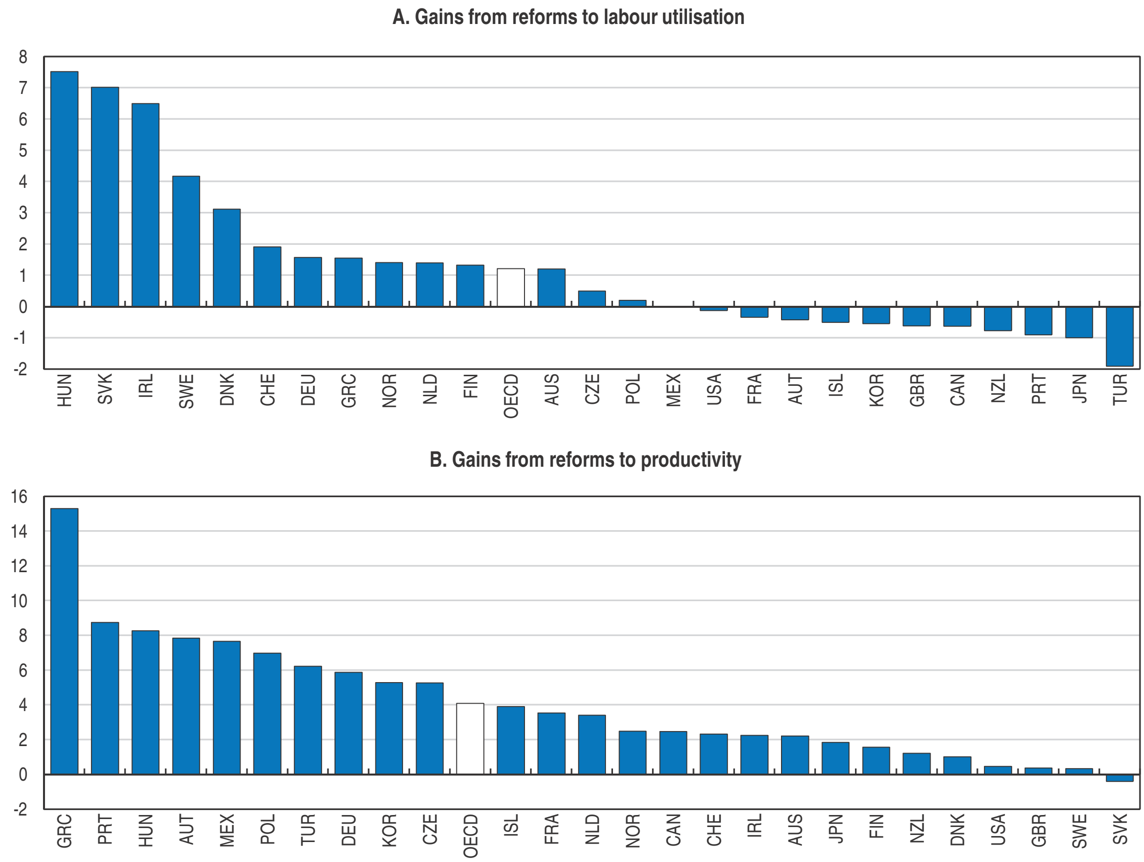
mainly due to higher cyclical unemployment which, if it persists, partly translates into higher structural unemployment, as workers lose attachment to the labour force and their skills deteriorate during lengthy spells of inactivity.

As a result, a pressing question is whether such effects can be reversed. Notwithstanding its impact on the level of long-term output, for many countries the crisis may not have reduced the potential growth rate, which is currently estimated at close to its old normal, as is the case in the United States (see OECD, 2014). In these countries, the current potential output path is thus below but roughly parallel to the pre-crisis path. However, for some countries such as Ireland and Greece, pre- and post-crisis paths are diverging, reflecting significant differentials in potential output growth. Structural measures could address, and possibly revert, such longer-term consequences of the recession. Based on the estimates reported in the previous section, the overall gains from further convergence in structural policy settings on potential output across the OECD area could be of the order of 3.9 to 9.5% (Figure 4.5)[6] depending on how much additional convergence toward best policy practice is assumed to take place.

- Under a modest reform scenario, which would bring all countries to a point where the gap in policy settings *vis-à-vis* best practice would be no more than 50% after reforms, an increase of 3.9% in potential GDP could be achieved on average. In this scenario of mild convergence, gains are achieved through greater support to innovation and a more pro-labour utilisation stance in labour incentives and taxation, and to a lesser extent by reducing labour costs. No or weak gains can be expected in the remaining policy areas given the degree of convergence already achieved.

Figure 4.4. **The estimated average effects of past structural reforms are sizeable for some countries**

Percentage points

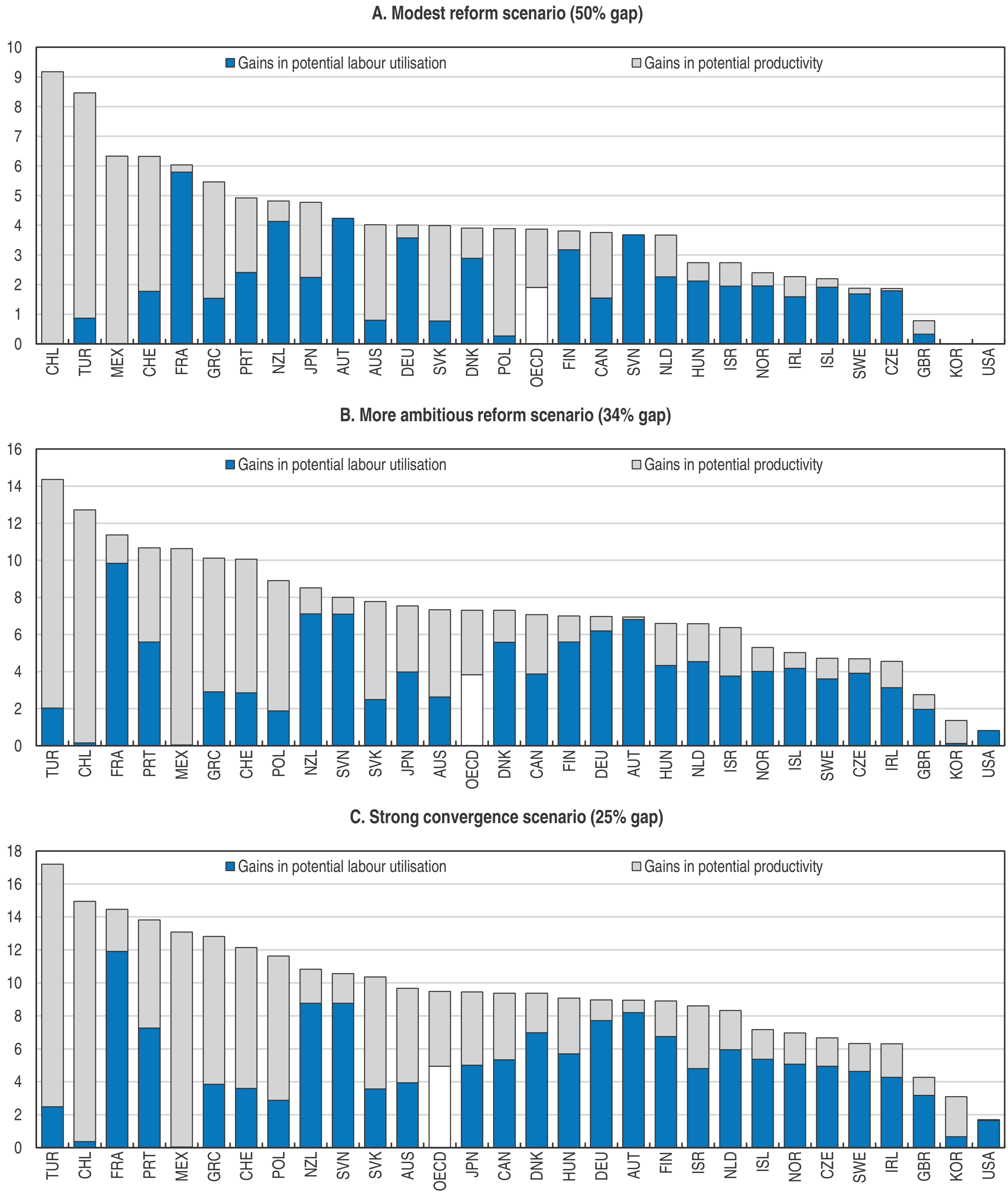


StatLink http://dx.doi.org/10.1787/888933177575

- Under a scenario of more ambitious convergence, where the gap in policy settings *vis-à-vis* best practice would not exceed 34% after reforms, the average gain in potential GDP could reach 7.3%. The relative contribution from the various policy areas would be similar to the first scenario except for the gains achieved through additional convergence in product market regulation.
- Finally, a strong convergence scenario, i.e. where the gaps in policy settings *vis-à-vis* best practice are no more than 25% after reforms, could generate a nearly 10% increase in the level of potential output. In this case, support to innovation would remain the main contributor, as in the other two scenarios. However, labour utilisation-enhancing reforms would account for nearly half of the potential gains.

These illustrative scenarios indicate that by moving closer to best practice across a broad range of policy areas, countries could more than offset the loss of output due to the crisis, pushing potential output back to its pre-crisis level.

Figure 4.5. **Further convergence towards policy best practice could yield substantial gains**



StatLink http://dx.doi.org/10.1787/888933177586

Notes

1. Given that the set of indicator-based priority areas was substantially enlarged in 2007 (with notably the introduction of indicators of innovation policies), this is used as a starting point for assessing reform responsiveness and the evolution of priorities over time.
2. See Chapter 1 for a detailed assessment on the recent developments of reform progress in these areas.
3. If convergence in structural reforms holds among OECD countries, the composite score S^N_{ikt} of country *i* in policy area *k* at time *t* can be approximated by the process $ln(S^N_{ikt}) = a + (1 - b)ln(S^N_{ikt-1}) + u_{ikt}$ where a and b are constants, with generally $0 < b < 1$ (the negatives of the trend lines' slopes of Figure 1.3), and u_{ikt} is a disturbance term. Testing the condition $b > 0$ is a test of convergence as the score annual growth rate, $ln(\frac{S^N_{ikt}}{S^N_{ikt-1}})$, is inversely related to $ln(S^N_{ikt-1})$ in this case. A value of $b = 1$ implies perfect convergence, $b < 0$ divergence and $b > 1$ characterises a leapfrogging effect (which cannot occur here given the applied normalisation of the policy indicators).
4. In the remainder of this section, figures on changes in policy indicators are gathered in the annex available at the end of the chapter.
5. Detailed results by policy areas are available in Table 4.A1.2 of the annex.
6. Detailed results by policy areas are available in Table 4.A1.3 of the annex.

Bibliography

Annicchiarico, B., F. Di Dio and F. Felici (2013), "Structural Reforms and the Potential Effects on the Italian Economy", *Journal of Policy Modeling*, Society for Policy Modeling, Vol. 35, pp. 88-109.

Ball, L.M. (2014), "Long-Term Damage from the Great recession in OECD Countries", *NBER Working Paper Series*, No. 20185, National Bureau of Economic Research.

Barnes, S., R. Bouis, P. Briard, S. Dougherty and M. Eris (2013), "The GDP Impact of Reform: A Simple Simulation Framework", *OECD Economics Department Working Papers*, No. 834, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5kgk9qjnhkmt-en*.

Bouis, R. and R. Duval (2011), "Raising Potential after the Crisis: A Quantitative Assessment of the Potential Gains from Various Structural Reforms in the OECD Area and Beyond", *OECD Economics Department Working Papers*, No. 835, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5kgk9qj18s8n-en*.

de Mello, L. and P.C. Padoan (2010), "Promoting Potential Growth: The Role of Structural Reform", *OECD Economics Department Working Papers*, No. 793, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5kmbm6rz4dg6-en*.

Lusinyan, L. and D. Muir (2013), "Assessing the Macroeconomic Impact of Structural Reforms: The Case of Italy", *IMF Working Paper*, WP/12/23, International Monetary Fund.

OECD (2014), *OECD Economic Outlook 2014*, Vol. 2014/1, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_outlook-v2014-1-en*.

OECD (2013), *Economic Policy Reforms 2013: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2013-en*.

OECD (2012), *Economic Policy Reforms 2012: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2012-en*.

OECD (2009), *Economic Policy Reforms 2009: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2009-en*.

OECD (2006a), *OECD Employment Outlook 2006: Boosting Jobs and Incomes*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/empl_outlook-2006-en*.

OECD (2006b), *Economic Policy Reforms 2006: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2006-en*.

OECD (2005), *Economic Policy Reforms 2005: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2005-en*.

OECD (1994), *The OECD Jobs Strategy*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/20743653*.

Ollivaud, P. and D. Turner (2014), "The Effect of the Global Crisis on OECD Potential Output", *OECD Economics Department Working Papers*, No. 1166, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jxwtl8h75bw-en*.

ANNEX 4.A1

Additional results on simulations and structural policy indicators developments

Table 4.A1.1. **Structural policy scoreboard**

2000-12

	Labour utilisation					Productivity				
	Labour costs	Labour incentives	Second earners incentives	Labour taxation	Job regulation	Scope of state intervention	Barriers to entrepreneurship	Barriers to trade and FDI	Support to innovation	Tax shares
AUS	42	57	35	58	80	62	98	88	7	22
AUT	..	31	72	18	67	71	64	90	79	8
BEL	50	32	62	5	55	59	48	97	30	16
CAN	59	39	26	47	86	65	85	84	10	21
CHE	..	23	67	72	79	46	88	93	6	6
CHL	..	70	100	100	58	63	91	95	3	67
CZE	78	35	37	36	66	63	61	99	44	22
DEU	..	36	62	19	69	67	76	98	28	12
DNK	..	19	49	38	52	62	86	97	17	22
ESP	60	48	82	32	66	65	54	98	32	18
EST	78	56	75	37	67	70	70	99	36	41
FIN	..	25	83	25	51	59	72	99	23	22
FRA	37	44	83	14	58	55	59	91	34	22
GBR	56	41	67	50	85	72	85	95	27	44
GRC	62	98	99	27	63	50	53	97	6	40
HUN	46	59	62	24	78	63	43	98	42	51
IRL	54	24	0	63	78	60	80	96	22	36
ISL	..	22	50	47	57	63	64	85	32	39
ISR	33	30	87	69	71	43	59	84	32	51
ITA	..	68	65	21	58	60	60	95	15	24
JPN	73	20	87	52	82	67	79	75	9	4
KOR	64	67	97	70	68	53	68	56	64	44
LUX	66	13	44	45	47	62	53	100	1	21
MEX	..	..	100	78	70	56	47	57	4	71
NLD	55	22	70	40	70	77	88	99	14	20
NOR	..	27	75	37	45	57	84	92	28	7
NZL	27	50	15	81	80	60	98	73	22	45
POL	56	48	89	45	70	41	36	94	12	40
PRT	32	45	65	31	61	57	49	100	9	44
SVK	54	52	68	35	73	56	62	96	7	26
SVN	28	28	39	36	63	52	65	100	87	32
SWE	..	38	87	30	53	54	81	95	37	13
TUR	0	88	91	34	51	38	20	95	12	57
USA	73	70	60	51	98	75	77	92	70	9
OECD	**51**	**43**	**66**	**43**	**67**	**59**	**68**	**91**	**27**	**30**

Table 4.A1.2. **Estimated impact of past reforms on growth potential**

2000-12

	Growth in potential labour utilisation	Contributions from reforms in:					Total contribution from reforms to labour utilisation	Growth in potential productivity	Contribution from reforms in:				Total contribution from reforms to productivity	Growth in potential GDP per capita	Total contribution from reforms
		Labour costs	Labour incentives	Second earners incentives	Labour taxation	Job regulation			Scope of state intervention	Barriers to entrepreneurship	Barriers to trade and FDI	Support to innovation			
AUS	**6.4**	0.7	0.5	-0.4	0.3	0.0	**1.2**	**14.0**	0.2	0.3	1.8	-0.1	**2.2**	**20.4**	**3.4**
AUT	**7.5**	..	-0.1	0.0	-0.4	0.1	**-0.4**	**11.5**	2.6	3.9	0.2	1.2	**7.8**	**19.0**	**7.4**
CAN	**5.4**	-0.2	0.0	-0.3	-0.1	0.0	**-0.6**	**9.0**	0.2	1.0	1.1	0.1	**2.5**	**14.4**	**1.8**
CHE	**3.9**	..	1.9	0.0	0.0	0.0	**1.9**	**8.0**	0.5	1.9	0.3	-0.3	**2.3**	**12.0**	**4.2**
CZE	**1.5**	-0.2	0.3	0.3	0.0	0.0	**0.5**	**35.3**	2.8	1.9	0.4	0.2	**5.3**	**36.8**	**5.8**
DEU	**5.3**	..	0.2	0.2	1.2	0.1	**1.6**	**10.3**	0.9	5.1	0.0	-0.1	**5.9**	**15.7**	**7.4**
DNK	**-0.8**	..	2.3	0.2	0.6	0.0	**3.1**	**9.9**	0.3	0.6	0.0	0.1	**1.0**	**9.1**	**4.1**
FIN	**6.4**	..	0.7	0.1	0.5	0.0	**1.3**	**12.2**	0.9	0.1	0.6	-0.1	**1.6**	**18.6**	**2.9**
FRA	**-1.2**	-0.5	0.3	0.0	-0.1	0.0	**-0.3**	**10.8**	2.1	1.5	0.0	-0.1	**3.5**	**9.7**	**3.2**
GBR	**2.9**	-0.4	-0.2	-0.1	0.1	0.0	**-0.6**	**12.6**	0.0	0.4	0.1	-0.1	**0.4**	**15.4**	**-0.3**
GRC	**3.9**	0.3	1.1	0.0	-0.2	0.3	**1.6**	**9.8**	6.6	4.6	0.2	3.9	**15.3**	**13.7**	**16.9**
HUN	**0.6**	-0.8	0.4	-0.2	8.0	0.0	**7.5**	**24.8**	2.6	1.3	1.5	2.8	**8.3**	**25.4**	**15.8**
IRL	**2.5**	7.7	-0.2	-1.1	0.1	0.0	**6.5**	**27.2**	1.3	0.0	0.0	0.9	**2.2**	**29.7**	**8.7**
ISL	**-2.0**	..	-0.5	0.3	-0.3	..	**-0.5**	**22.2**	0.7	0.8	0.6	1.8	**3.9**	**20.3**	**3.4**
JPN	**-4.0**	-0.3	-0.3	-0.1	-0.4	0.1	**-1.0**	**10.4**	-0.1	2.0	0.1	-0.1	**1.8**	**6.4**	**0.9**
KOR	**8.3**	-0.7	0.3	0.0	-0.2	0.1	**-0.5**	**41.1**	0.1	0.8	3.9	0.4	**5.3**	**49.4**	**4.7**
MEX	**9.7**	..	..	0.0	-0.2	0.2	**0.0**	**4.2**	0.8	1.5	5.2	0.2	**7.7**	**13.9**	**7.6**
NLD	**4.9**	0.4	-0.3	0.1	1.2	0.0	**1.4**	**8.6**	2.6	0.8	0.0	0.0	**3.4**	**13.5**	**4.8**
NOR	**5.6**	..	1.1	0.2	0.1	0.0	**1.4**	**17.9**	0.9	1.5	0.0	0.1	**2.5**	**23.5**	**3.9**
NZL	**7.9**	-0.8	0.7	-0.8	0.1	0.0	**-0.8**	**8.3**	-0.8	0.8	0.7	0.5	**1.2**	**16.2**	**0.4**
POL	**8.4**	-0.4	0.2	0.2	0.3	0.0	**0.2**	**46.3**	-0.5	5.5	2.3	-0.3	**7.0**	**54.7**	**7.2**
PRT	**-4.2**	-0.7	0.2	-0.2	-0.4	0.2	**-0.9**	**14.3**	6.5	0.9	0.1	1.3	**8.7**	**10.0**	**7.8**
SVK	**5.0**	-0.3	7.1	0.0	0.1	0.1	**7.0**	**53.4**	..	..	..	-0.4	**-0.4**	**58.4**	**6.6**
SWE	**1.8**	..	1.3	0.0	2.7	0.1	**4.2**	**21.1**	-0.1	0.6	0.1	-0.2	**0.3**	**23.0**	**4.5**
TUR	**7.0**	-1.9	..	-0.1	0.1	0.0	**-1.9**	**32.3**	2.4	-1.1	2.3	2.6	**6.2**	**39.3**	**4.3**
USA	**-3.2**	-0.1	0.1	0.0	-0.1	0.0	**-0.1**	**22.0**	0.1	-0.1	0.2	0.2	**0.5**	**18.8**	**0.3**
OECD	3.5	**0.1**	**0.7**	**-0.1**	**0.5**	**0.1**	1.2	19.1	**1.4**	**1.5**	**0.9**	**0.6**	4.1	22.6	5.3

Table 4.A1.3. **Potential gains from further convergence in structural policy settings**

A. Gains from modest reform scenario (50% gap)

	Gains in potential labour utilisation	Gains from reforms in:					Gains in potential productivity	Gains from reforms in:				Total gains in potential GDP per capita
		Labour costs	Labour incentives	Second earners incentives	Labour taxation	Job regulation		Scope of state intervention	Barriers to entrepreneurship	Barriers to trade and FDI	Support to innovation	
AUS	**0.8**	0.4	0.0	0.5	0.0	0.0	**3.2**	0.0	0.0	0.0	3.2	**4.0**
AUT	**4.2**	..	0.9	0.0	3.3	0.0	**0.0**	0.0	0.0	0.0	0.0	**4.2**
CAN	**1.6**	0.0	0.4	1.0	0.1	0.0	**2.2**	0.0	0.0	0.0	2.2	**3.8**
CHE	**1.8**	..	1.8	0.0	0.0	0.0	**4.5**	0.3	0.0	0.0	4.3	**6.3**
CHL	**0.0**	..	0.0	0.0	0.0	0.0	**9.2**	0.0	0.0	0.0	9.2	**9.2**
CZE	**1.8**	0.0	0.6	0.4	0.7	0.0	**0.1**	0.0	0.0	0.0	0.1	**1.9**
DEU	**3.6**	..	0.6	0.0	3.0	0.0	**0.4**	0.0	0.0	0.0	0.4	**4.0**
DNK	**2.9**	..	2.3	0.0	0.6	0.0	**1.0**	0.0	0.0	0.0	1.0	**3.9**
FIN	**3.2**	..	1.4	0.0	1.8	0.0	**0.6**	0.0	0.0	0.0	0.6	**3.8**
FRA	**5.8**	0.7	0.2	0.0	4.9	0.0	**0.2**	0.0	0.0	0.0	0.2	**6.0**
GBR	**0.3**	0.0	0.3	0.0	0.0	0.0	**0.5**	0.0	0.0	0.0	0.5	**0.8**
GRC	**1.5**	0.0	0.0	0.0	1.5	0.0	**3.9**	0.0	0.0	0.0	3.9	**5.5**
HUN	**2.1**	0.2	0.0	0.0	1.9	0.0	**0.6**	0.0	0.5	0.0	0.1	**2.7**
IRL	**1.6**	0.0	1.6	..	0.0	0.0	**0.7**	0.0	0.0	0.0	0.7	**2.3**
ISL	**1.9**	..	1.8	0.0	0.1	0.0	**0.3**	0.0	0.0	0.0	0.3	**2.2**
ISR	**2.0**	1.0	0.9	0.0	0.0	0.0	**0.8**	0.5	0.0	0.0	0.3	**2.7**
JPN	**2.2**	0.0	2.2	0.0	0.0	0.0	**2.5**	0.0	0.0	0.0	2.5	**4.8**
KOR	**0.0**	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
MEX	**0.0**	..	..	0.0	0.0	0.0	**6.3**	0.0	0.2	0.0	6.1	**6.3**
NLD	**2.3**	0.0	1.8	0.0	0.5	0.0	**1.4**	0.0	0.0	0.0	1.4	**3.7**
NOR	**2.0**	..	1.3	0.0	0.6	0.1	**0.4**	0.0	0.0	0.0	0.4	**2.4**
NZL	**4.1**	1.7	0.0	2.5	0.0	0.0	**0.7**	0.0	0.0	0.0	0.7	**4.8**
POL	**0.3**	0.0	0.1	0.0	0.2	0.0	**3.6**	0.6	1.2	0.0	1.8	**3.9**
PRT	**2.4**	1.1	0.2	0.0	1.1	0.0	**2.5**	0.0	0.0	0.0	2.5	**4.9**
SVK	**0.8**	0.0	0.0	0.0	0.8	0.0	**3.2**	0.0	0.0	0.0	3.2	**4.0**
SVN	**3.7**	1.5	1.2	0.3	0.7	0.0	**0.0**	0.0	0.0	0.0	0.0	**3.7**
SWE	**1.7**	..	0.5	0.0	1.2	0.0	**0.2**	0.0	0.0	0.0	0.2	**1.9**
TUR	**0.9**	..	0.0	0.0	0.9	0.0	**7.6**	0.9	5.0	0.0	1.7	**8.5**
USA	**0.0**	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
OECD	**1.9**	**0.4**	**0.7**	**0.2**	**0.8**	**0.0**	**2.0**	**0.1**	**0.2**	**0.0**	**1.6**	**3.9**

Table 4.A1.3. **Potential gains from further convergence in structural policy settings** *(cont.)*

B. Gains from more ambitious reform scenario (34% gap)

	Gains in potential labour utilisation	Gains from reforms in:					**Gains in potential productivity**	Gains from reforms in:				**Total gains in potential GDP per capita**
		Labour costs	Labour incentives	Second earners incentives	Labour taxation	Job regulation		Scope of state intervention	Barriers to entrepreneurship	Barriers to trade and FDI	Support to innovation	
AUS	**2.6**	1.1	0.3	1.0	0.3	0.0	**4.7**	0.2	0.0	0.0	4.5	**7.3**
AUT	**6.8**	..	1.7	0.0	5.0	0.1	**0.1**	0.0	0.1	0.0	0.0	**6.9**
CAN	**3.9**	0.3	1.1	1.7	0.8	0.0	**3.2**	0.1	0.0	0.0	3.1	**7.1**
CHE	**2.8**	..	2.8	0.0	0.0	0.0	**7.2**	1.3	0.0	0.0	5.9	**10.1**
CHL	**0.2**	..	0.0	0.0	0.0	0.2	**12.6**	0.1	0.0	0.0	12.4	**12.7**
CZE	**3.9**	0.0	1.3	0.9	1.6	0.1	**0.8**	0.2	0.3	0.0	0.3	**4.7**
DEU	**6.2**	..	1.5	0.1	4.6	0.1	**0.8**	0.0	0.0	0.0	0.8	**7.0**
DNK	**5.6**	..	3.6	0.4	1.4	0.2	**1.7**	0.2	0.0	0.0	1.5	**7.3**
FIN	**5.6**	..	2.4	0.0	3.0	0.3	**1.4**	0.4	0.0	0.0	1.0	**7.0**
FRA	**9.8**	1.5	1.0	0.0	7.2	0.2	**1.5**	0.6	0.4	0.0	0.5	**11.4**
GBR	**2.0**	0.4	1.0	0.0	0.6	0.0	**0.8**	0.0	0.0	0.0	0.8	**2.7**
GRC	**2.9**	0.1	0.0	0.0	2.7	0.1	**7.2**	1.0	0.8	0.0	5.4	**10.1**
HUN	**4.3**	0.9	0.2	0.1	3.2	0.0	**2.3**	0.2	1.8	0.0	0.3	**6.6**
IRL	**3.1**	0.4	2.6	..	0.1	0.0	**1.4**	0.3	0.0	0.0	1.1	**4.6**
ISL	**4.2**	..	2.9	0.4	0.7	0.2	**0.9**	0.2	0.1	0.0	0.6	**5.0**
ISR	**3.8**	2.0	1.7	0.0	0.0	0.0	**2.6**	1.6	0.4	0.0	0.6	**6.4**
JPN	**4.0**	0.0	3.5	0.0	0.5	0.0	**3.6**	0.0	0.0	0.0	3.5	**7.5**
KOR	**0.1**	0.1	0.0	0.0	0.0	0.1	**1.2**	0.8	0.0	0.4	0.0	**1.4**
MEX	**0.0**	..	..	0.0	0.0	0.0	**10.6**	0.6	1.4	0.4	8.3	**10.6**
NLD	**4.5**	0.4	2.9	0.0	1.2	0.0	**2.1**	0.0	0.0	0.0	2.1	**6.6**
NOR	**4.0**	..	2.2	0.0	1.4	0.4	**1.3**	0.5	0.0	0.0	0.8	**5.3**
NZL	**7.1**	2.8	0.6	3.7	0.0	0.0	**1.4**	0.3	0.0	0.0	1.1	**8.5**
POL	**1.9**	0.4	0.6	0.0	0.9	0.0	**7.0**	1.8	2.7	0.0	2.5	**8.9**
PRT	**5.6**	2.1	1.2	0.0	2.1	0.1	**5.1**	0.5	1.1	0.0	3.5	**10.7**
SVK	**2.5**	0.4	0.4	0.0	1.6	0.0	**5.3**	0.6	0.3	0.0	4.5	**7.8**
SVN	**7.1**	2.7	2.0	0.8	1.5	0.1	**0.9**	0.8	0.1	0.0	0.0	**8.0**
SWE	**3.6**	..	1.1	0.0	2.2	0.2	**1.1**	0.7	0.0	0.0	0.4	**4.7**
TUR	**2.0**	..	0.0	0.0	1.8	0.3	**12.3**	2.2	7.7	0.0	2.4	**14.4**
USA	**0.8**	0.0	0.2	0.1	0.5	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.8**
OECD	**3.8**	**0.9**	**1.4**	**0.3**	**1.6**	**0.1**	**3.5**	**0.5**	**0.6**	**0.0**	**2.3**	**7.3**

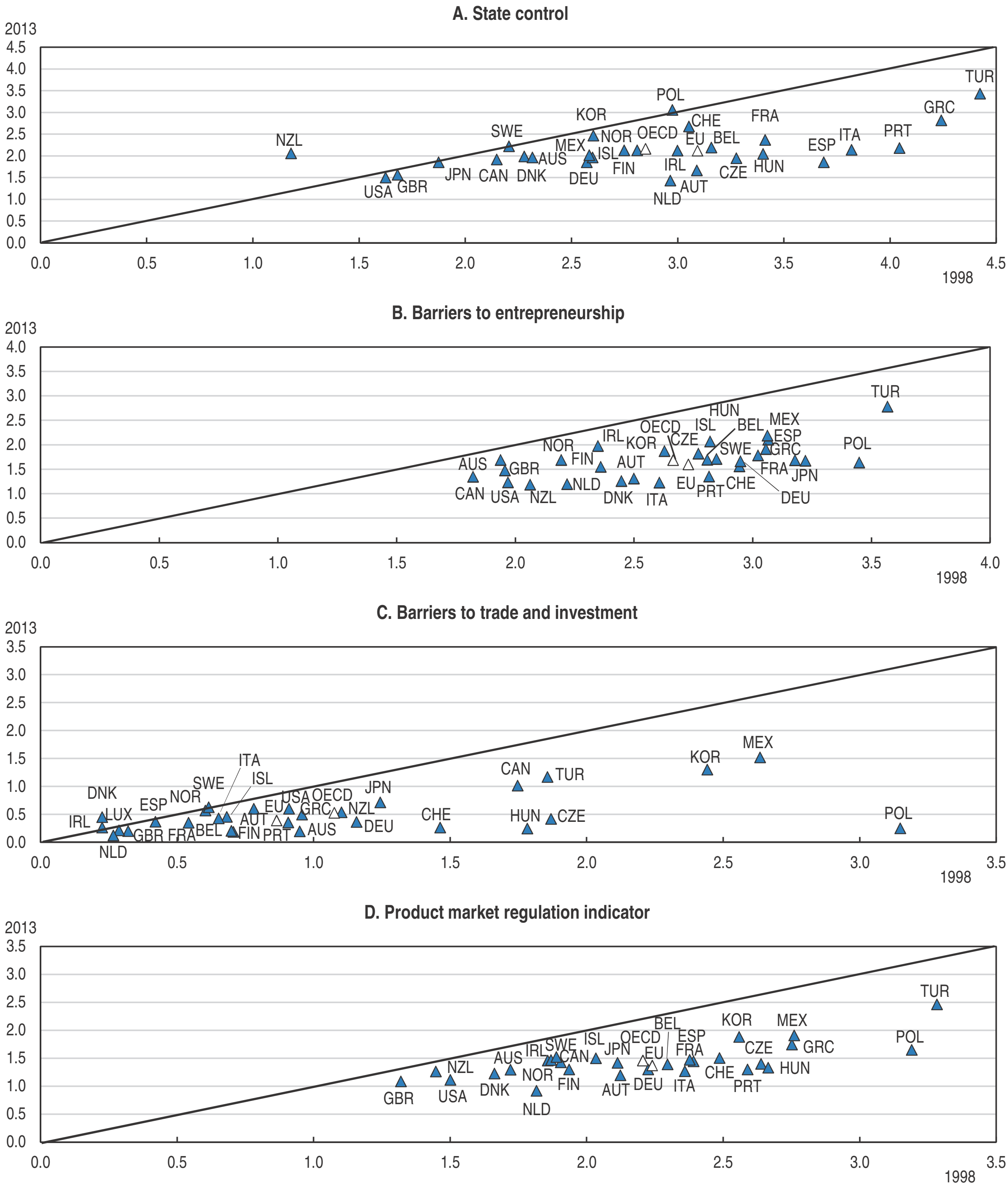
Table 4.A1.3. **Potential gains from further convergence in structural policy settings** *(cont.)*

C. Gains from strong reform scenario (25% gap)

	Gains in potential labour utilisation	Gains from reforms in:					**Gains in potential productivity**	Gains from reforms in:				**Total gains in potential GDP per capita**
		Labour costs	Labour incentives	Second earners incentives	Labour taxation	Job regulation		Scope of state intervention	Barriers to entrepreneurship	Barriers to trade and FDI	Support to innovation	
AUS	**3.9**	1.5	0.7	1.2	0.5	0.0	**5.7**	0.6	0.0	0.0	5.1	**9.7**
AUT	**8.2**	..	2.2	0.1	5.9	0.1	**0.7**	0.2	0.6	0.0	0.0	**9.0**
CAN	**5.3**	0.5	1.6	2.1	1.1	0.0	**4.0**	0.5	0.0	0.0	3.6	**9.4**
CHE	**3.6**	..	3.4	0.1	0.1	0.0	**8.6**	1.8	0.0	0.0	6.7	**12.1**
CHL	**0.4**	..	0.2	0.0	0.0	0.2	**14.6**	0.5	0.0	0.0	14.0	**14.9**
CZE	**4.9**	0.0	1.7	1.1	2.0	0.1	**1.7**	0.6	0.7	0.0	0.4	**6.7**
DEU	**7.7**	..	2.0	0.2	5.4	0.1	**1.3**	0.3	0.0	0.0	0.9	**9.0**
DNK	**7.0**	..	4.4	0.6	1.8	0.2	**2.4**	0.6	0.0	0.0	1.8	**9.4**
FIN	**6.7**	..	2.9	0.0	3.6	0.3	**2.2**	0.8	0.1	0.0	1.2	**8.9**
FRA	**11.9**	1.9	1.5	0.0	8.3	0.2	**2.6**	1.1	0.9	0.0	0.6	**14.5**
GBR	**3.2**	0.6	1.5	0.1	0.9	0.0	**1.1**	0.1	0.0	0.0	1.0	**4.3**
GRC	**3.9**	0.4	0.1	0.0	3.2	0.1	**9.0**	1.5	1.3	0.0	6.1	**12.8**
HUN	**5.7**	1.2	0.4	0.2	3.8	0.0	**3.4**	0.6	2.4	0.0	0.4	**9.1**
IRL	**4.3**	0.7	3.2	..	0.3	0.0	**2.0**	0.7	0.0	0.0	1.3	**6.3**
ISL	**5.4**	..	3.6	0.5	1.1	0.2	**1.8**	0.6	0.5	0.0	0.7	**7.2**
ISR	**4.8**	2.5	2.1	0.0	0.1	0.0	**3.8**	2.2	0.9	0.0	0.7	**8.6**
JPN	**5.0**	0.1	4.1	0.0	0.8	0.0	**4.4**	0.4	0.0	0.0	4.1	**9.4**
KOR	**0.7**	0.3	0.2	0.0	0.1	0.1	**2.4**	1.2	0.3	0.8	0.1	**3.1**
MEX	**0.0**	..	..	0.0	0.0	0.0	**13.1**	1.0	1.9	0.7	9.4	**13.1**
NLD	**5.9**	0.7	3.5	0.1	1.6	0.0	**2.4**	0.0	0.0	0.0	2.4	**8.3**
NOR	**5.1**	..	2.8	0.0	1.9	0.4	**1.9**	1.0	0.0	0.0	0.9	**7.0**
NZL	**8.8**	3.4	1.1	4.3	0.0	0.0	**2.1**	0.7	0.0	0.1	1.3	**10.8**
POL	**2.9**	0.7	0.9	0.0	1.2	0.0	**8.8**	2.4	3.4	0.0	2.9	**11.6**
PRT	**7.3**	2.6	1.7	0.2	2.6	0.1	**6.6**	0.9	1.7	0.0	4.0	**13.8**
SVK	**3.6**	0.7	0.6	0.1	2.1	0.0	**6.8**	1.0	0.7	0.0	5.1	**10.4**
SVN	**8.8**	3.3	2.5	1.0	1.9	0.1	**1.8**	1.3	0.5	0.0	0.0	**10.6**
SWE	**4.6**	..	1.6	0.0	2.8	0.2	**1.7**	1.1	0.0	0.0	0.6	**6.3**
TUR	**2.5**	..	0.0	0.0	2.2	0.3	**14.7**	2.9	9.1	0.0	2.8	**17.2**
USA	**1.7**	0.1	0.5	0.3	0.8	0.0	**0.1**	0.0	0.0	0.0	0.0	**1.7**
OECD	**5.0**	**1.2**	**1.8**	**0.4**	**1.9**	**0.1**	**4.5**	**0.9**	**0.9**	**0.1**	**2.7**	**9.5**

Figure 4.A1.1. **Product market regulation**

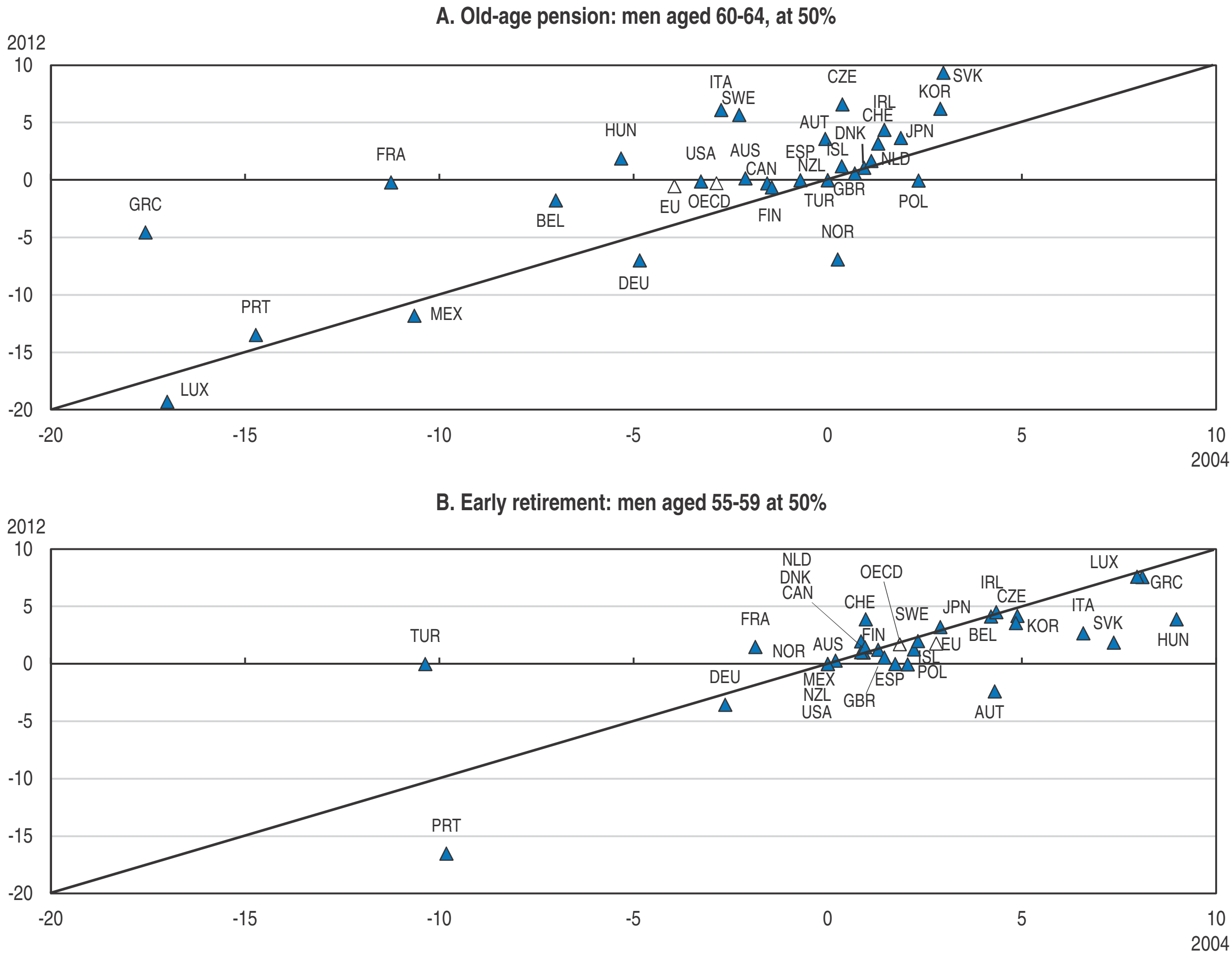
Index scale of 0-6 from least to most restrictive



Source: OECD, *Product Market Regulation Database*, *www.oecd.org/eco/pmr*.

StatLink http://dx.doi.org/10.1787/888933177591

Figure 4.A1.2. **Changes in pension wealth**



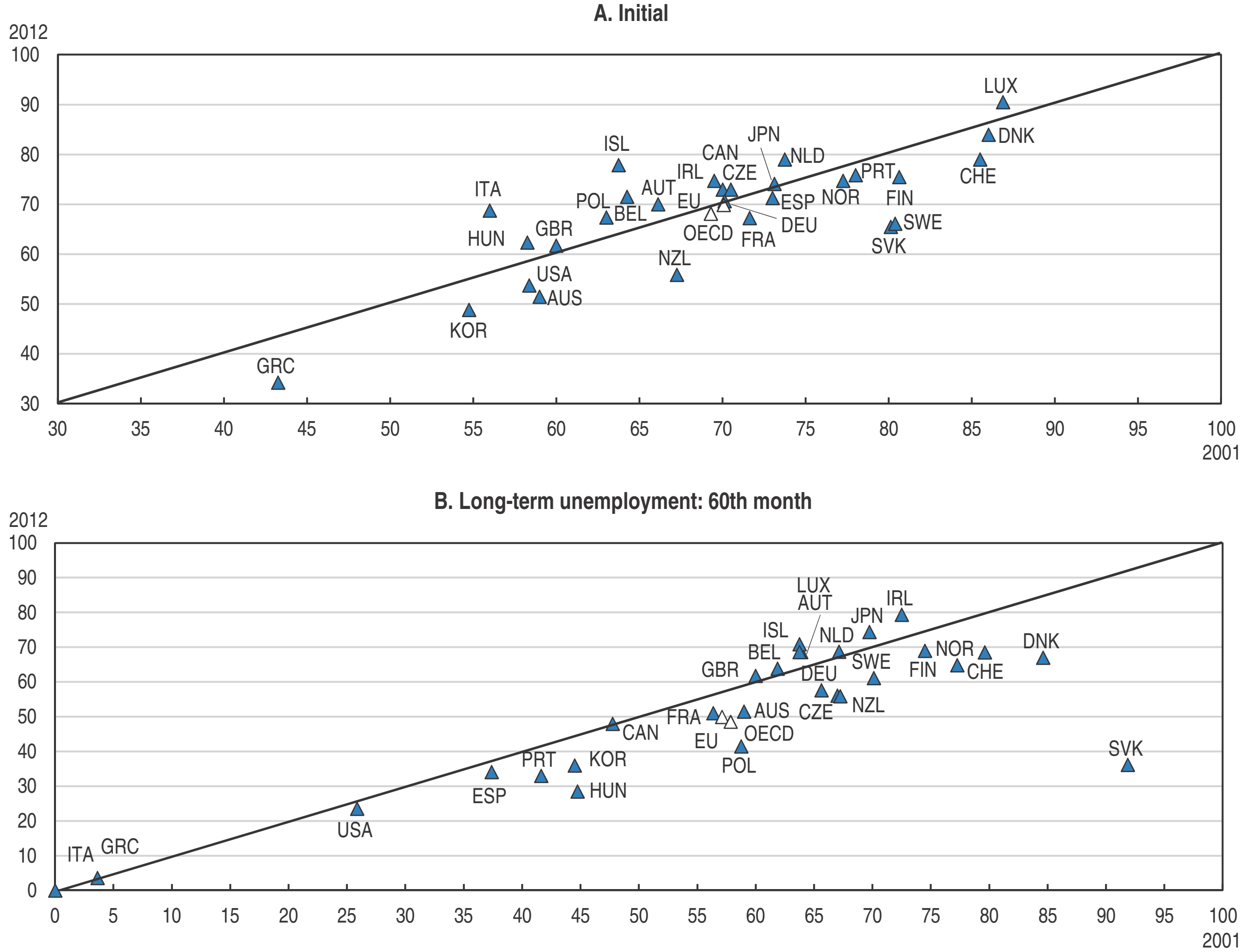
Note: The change in pension wealth is a measure of the incentive to remain in the workforce for an additional period. It measures the increase in the level of pension entitlement one gains by remaining in employment for an additional year. The calculation is the annual average increase in males' pension wealth when working from age 60 to 64 and age 55-59. Net pension wealth is the present value of the flow of pension benefits, taking account of the taxes and social security contributions that retirees have to pay on their pensions. It is measured and expressed as a multiple of gross annual individual earnings in the respective country. See OECD (2013), *Pensions at a Glance 2013: OECD and G20 Indicators* for additional details.

Source: OECD, *Pension Models*.

StatLink http://dx.doi.org/10.1787/888933177600

Figure 4.A1.3. **Net replacement rates for unemployment**

Net income when unemployed as a percentage of net income when working

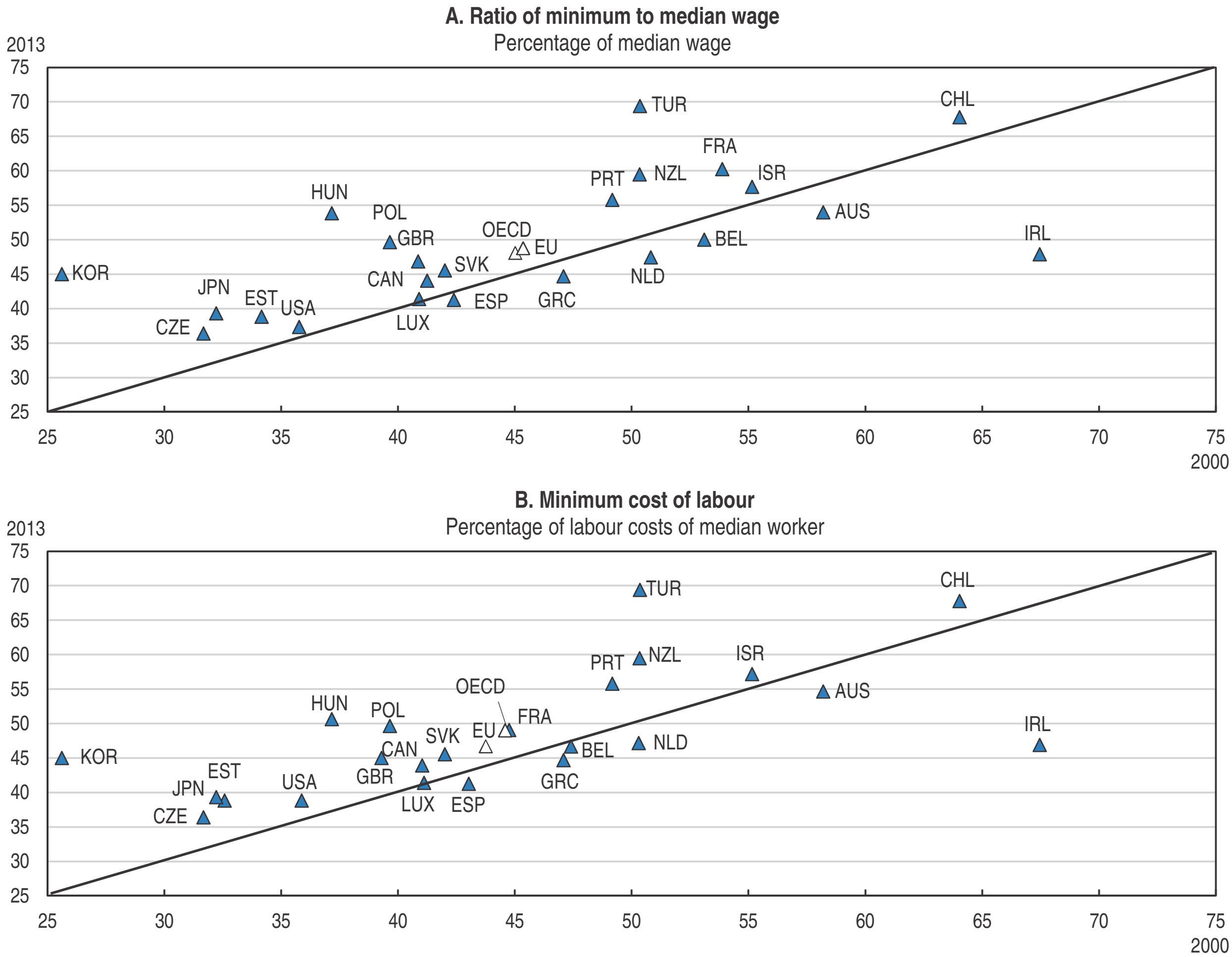


Note: Simple average of the net replacement rates for the following households situations: single with no child and with two children at 67% and 100% AW, one-earner married couple with no child and with two children at 67% AW and 100% AW. After tax and including unemployment and family benefits. Social assistance and other means-tested benefits are assumed to be available subject to relevant income conditions. Housing costs are assumed equal to 20% of AW. For Panel A, initial phase of unemployment but following any waiting period. Any income taxes payable on unemployment benefits are determined in relation to annualised benefit values (i.e. monthly values multiplied by 12) even if the maximum benefit duration is shorter than 12 months. For Panel B, after tax and including unemployment benefits, social assistance, family and housing benefits in the 60th month of benefit receipt.

Source: OECD, *Tax-Benefit Models*.

StatLink http://dx.doi.org/10.1787/888933177617

Figure 4.A1.4. **Minimum wage and cost of labour**



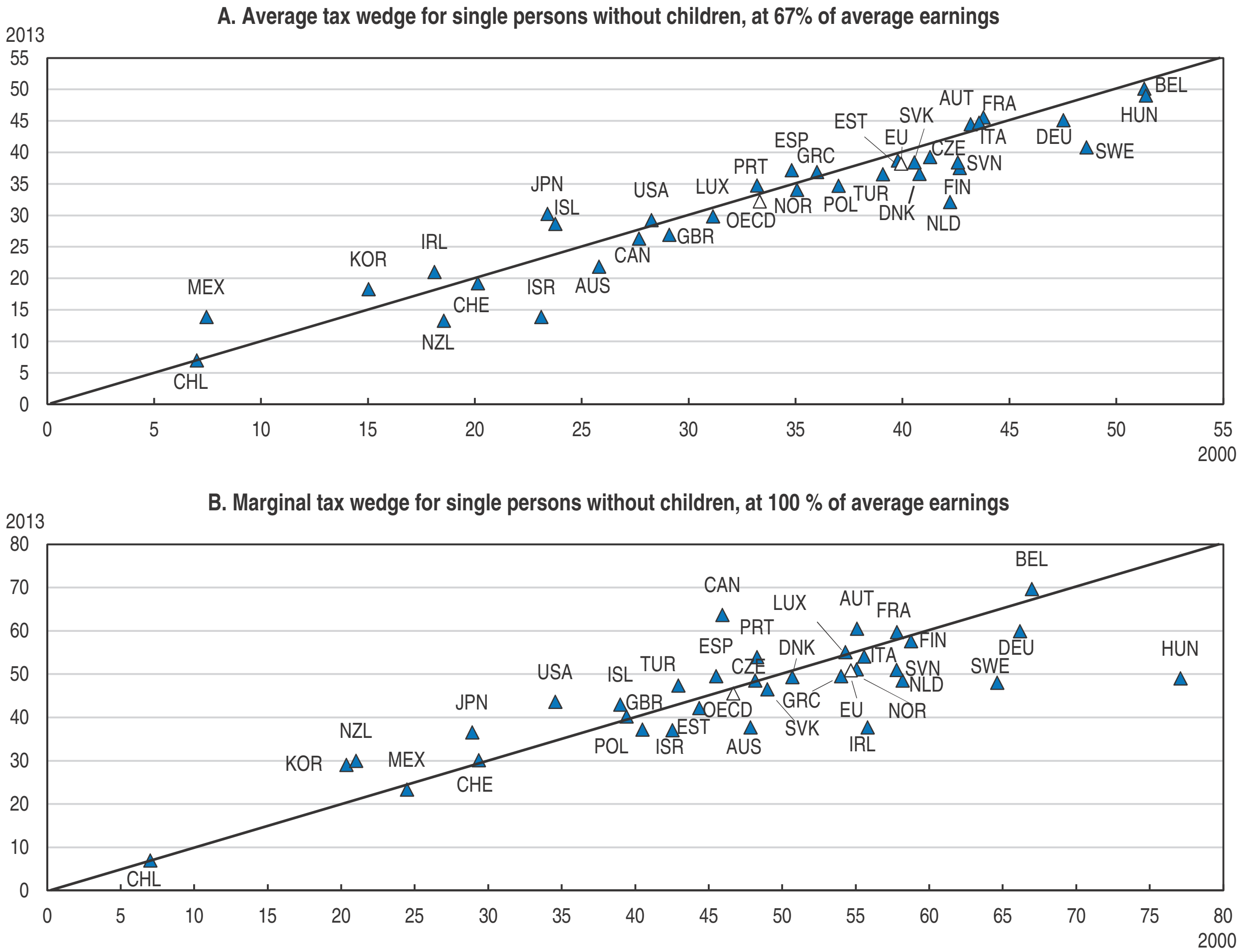
Note: For Panel B, the minimum cost of labour is expressed as a percentage of labour cost of median worker. The cost of labour is the sum of the wage level and the corresponding social security contribution paid by employers.

Source: Panel A: OECD, *OECD Employment Outlook Database*; Panel B: OECD, *OECD Employment Outlook* and *Taxing Wages Databases*.

StatLink http://dx.doi.org/10.1787/888933177628

Figure 4.A1.5. **Labour income taxation**

Percentage of total labour compensation

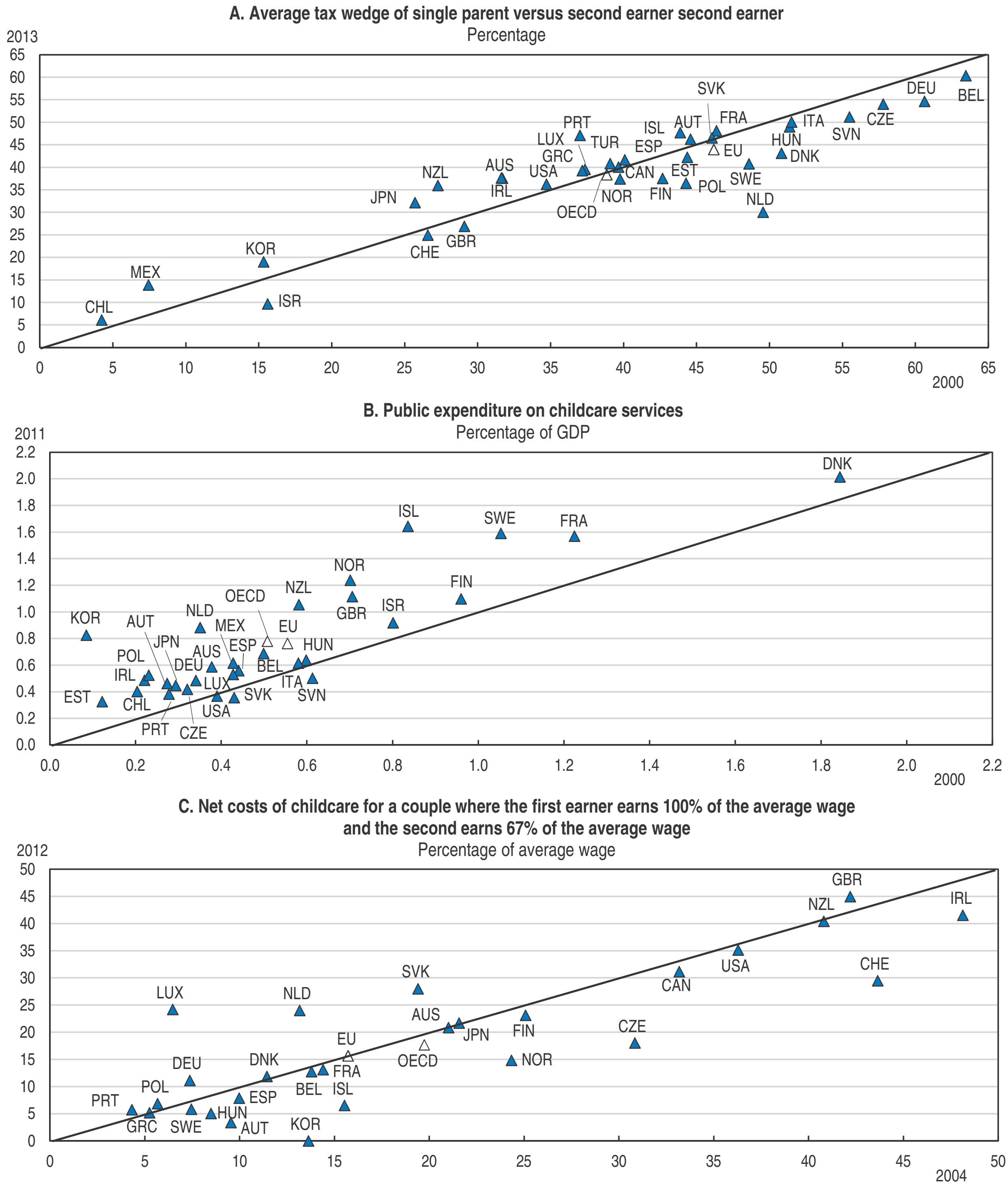


Note: The average tax wedge is measured as the difference between total labour compensation paid by the employer and the net take-home pay of employees, as a ratio of total labour compensation. It therefore includes both employer and employee social security contributions. The marginal tax wedge is measured as the difference between the change in total labour compensation paid by employers and the change in the net take-home pay of employees, as a result of an extra unit of national currency of labour income. The difference is expressed as a percentage of the change in total labour compensation.

Source: OECD, *Taxing Wages Database*.

StatLink http://dx.doi.org/10.1787/888933177633

Figure 4.A1.6. **Financial incentives to work for second earners**



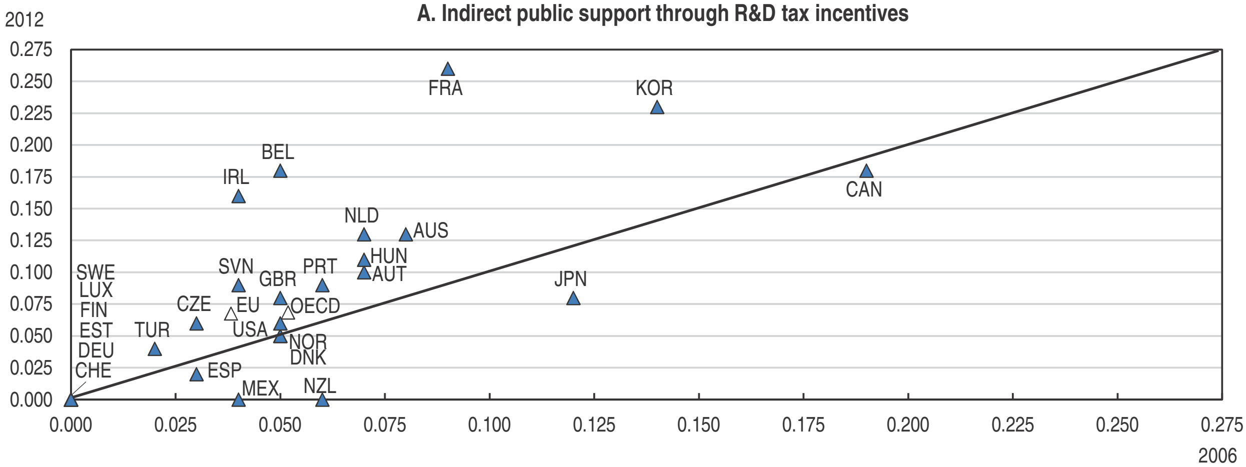
Note: For Panel B, childcare expenditure covers children three enrolled in childcare and children between the ages of three and five enrolled in pre-school. Childcare refers to formal day-care services, such as day-care centres and family day-care. Pre-school includes kindergartens and day-care centres which usually provide an educational content as well as traditional care for children (ISCED 0 under UNESCO's classification system). Local government spending may not be properly captured in the data for federal countries.

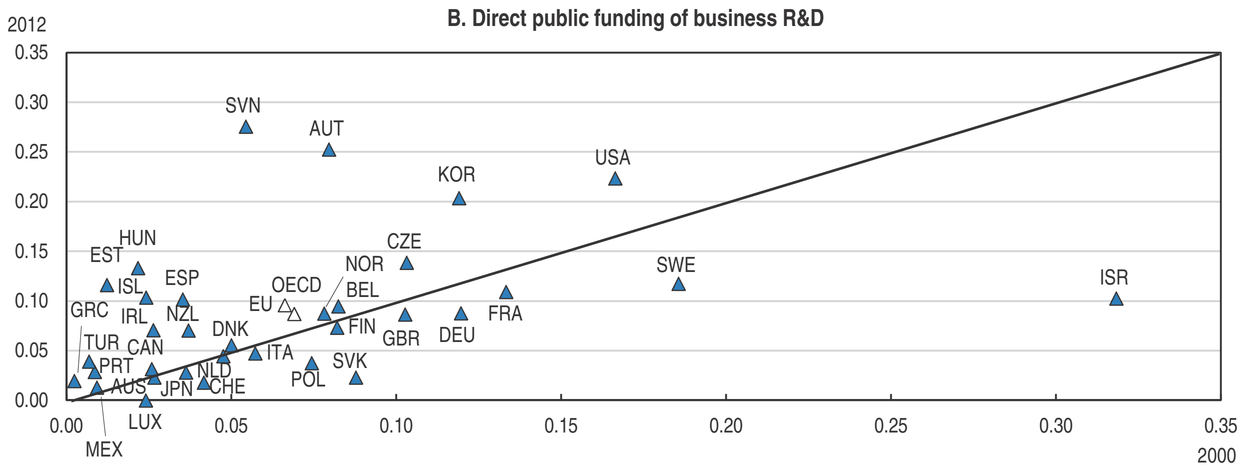
Source: Panel A: OECD, *Taxing Wages Models*; Panel B: OECD, *Family Database*; Panel C: OECD, *Tax-Benefit Models*; *www.oecd.org/els/social/workincentives*.

StatLink http://dx.doi.org/10.1787/888933177646

Figure 4.A1.7. **Support to innovation**

Percentage of GDP



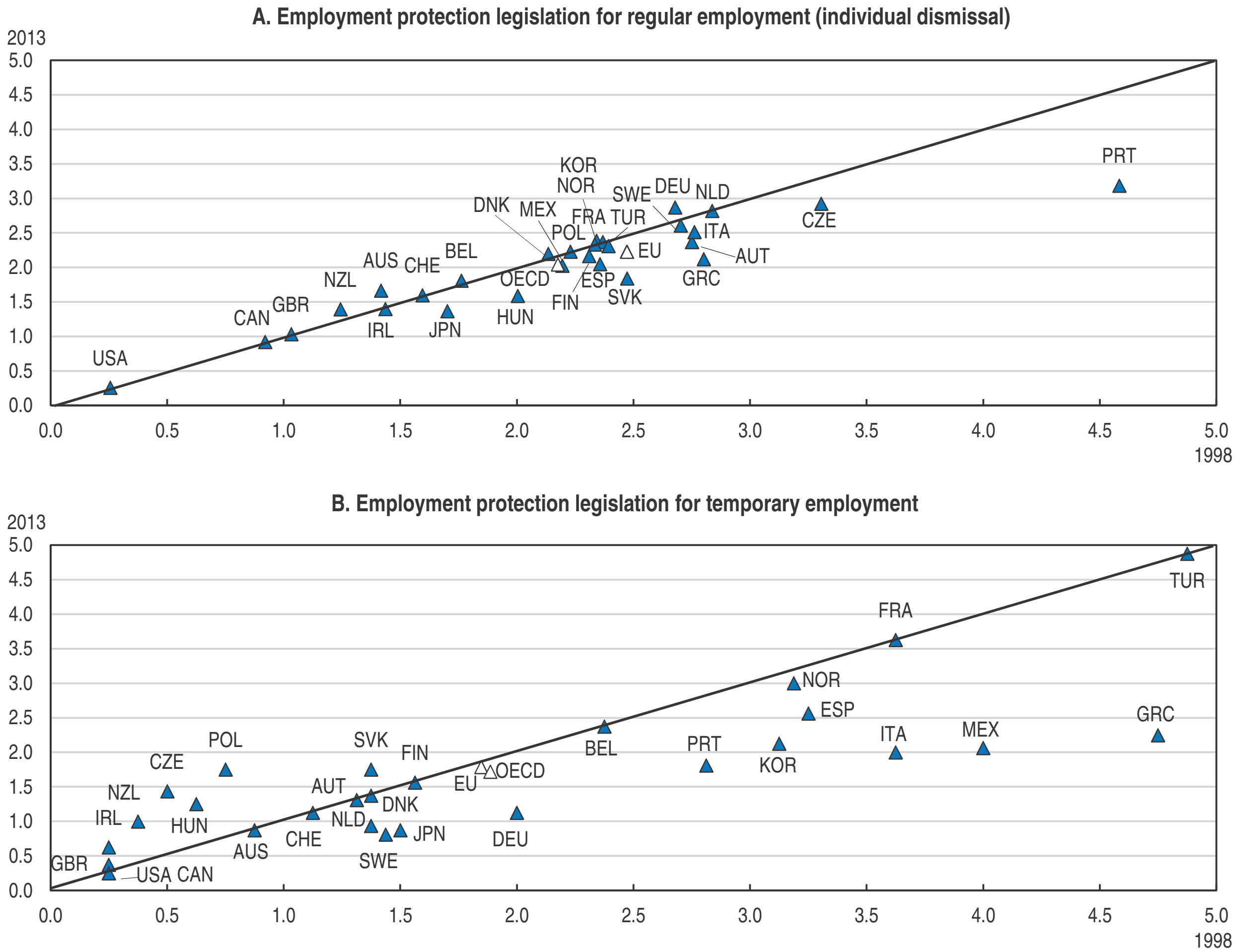


Source: Panel A: OECD, *R&D Tax Incentive Indicators*, *www.oecd.org/sti/rd-tax-stats.htm*; Panel B: OECD, *Main Science and Technology Indicators Database*.

StatLink http://dx.doi.org/10.1787/888933177653

Figure 4.A1.8. **Job protection legislation**

Index scale of 0-6 from least to most restrictive

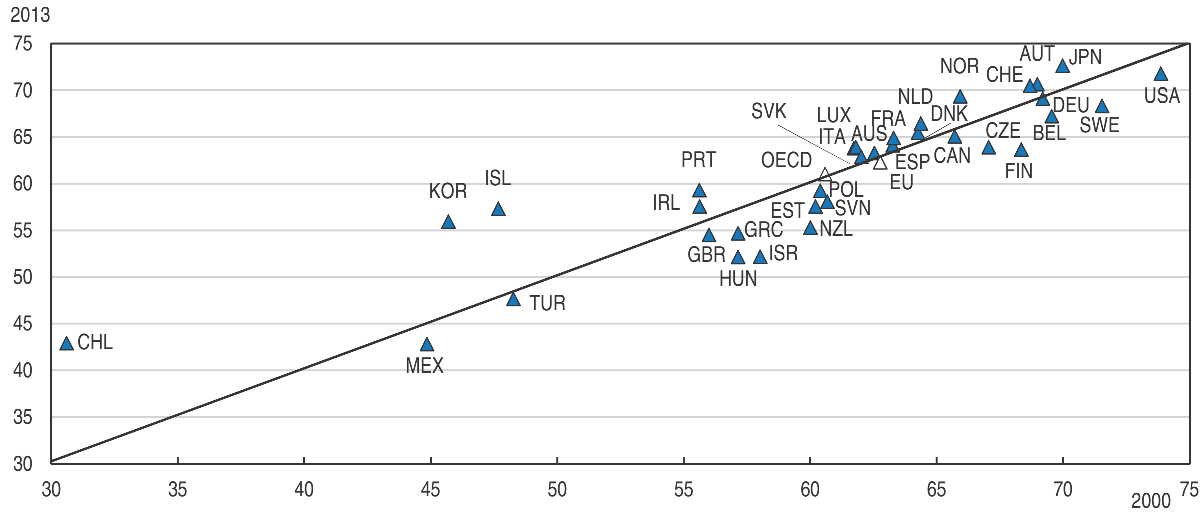


Source: OECD, *Employment Protection Database*.

StatLink http://dx.doi.org/10.1787/888933177665

Figure 4.A1.9. **Share of direct taxes**

Percentage of total tax revenue



Note: Direct taxes aggregate taxes on income, profits and capital gains, social security contributions and taxes on payroll and workforce.
Source: OECD, *Revenue Statistics Database*.

StatLink http://dx.doi.org/10.1787/888933177671

Chapter 5

Country notes

This chapter contains individual notes that provide, for each country, a rationale for the selection of the five policy priorities in terms of the performance weaknesses they are intended to address, as well as concrete recommendations to remedy the perceived shortcomings in the related policy area.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

AUSTRALIA

- Over the past decade, per capita income surpassed the average of the most advanced OECD countries, helped by high terms of trade and employment rates. However, productivity gains have been weak and the economy faces a period of adjustment in the wake of the mining boom.
- Shortfalls in transport infrastructure are being addressed by ambitious investment plans; however, ensuring cost-efficiency will require efficient design and monitoring. Childcare services are being expanded, but educational inequalities remain high and gaps are particularly large for minority groups, especially indigenous communities. Progress has been made in relaxing barriers to foreign direct investment.
- Better productivity performance could be achieved by further improving the operating environment for the private sector, most importantly in infrastructure, taxation, labour skills and innovation.
- Improving educational and labour market opportunities for minority groups would not only reduce social exclusion but also boost growth potential.

Growth performance indicators

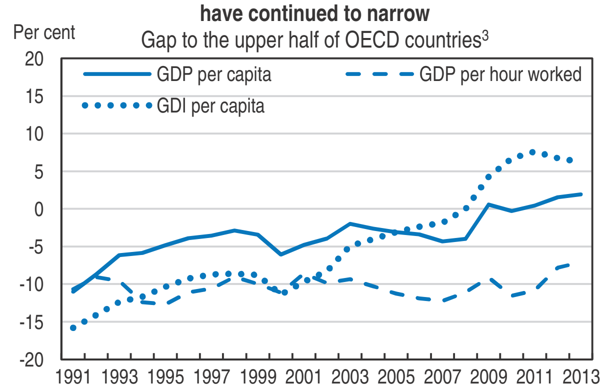
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.4	1.3
Potential labour utilisation		0.5	0.1
of which:	Labour force participation rate	0.3	0.2
	Employment rate[1]	0.2	-0.1
	Trend employment coefficient[2]	0.0	0.0
Potential labour productivity		0.9	1.2
of which:	Capital deepening	0.5	1.1
	Labour efficiency	0.2	-0.2
	Human capital	0.2	0.3

B. Gaps in GDP per capita and productivity have continued to narrow

Gap to the upper half of OECD countries[3]



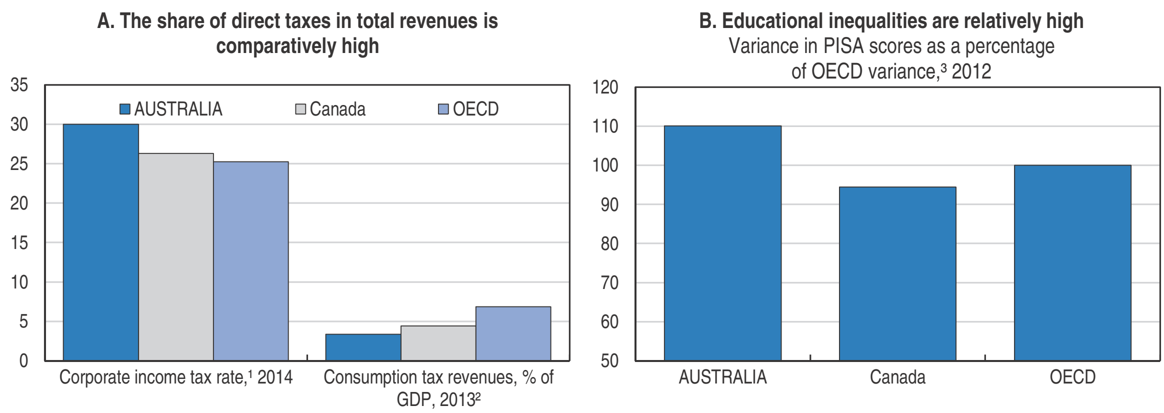
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177685

AUSTRALIA

Policy indicators



1. Combined central and sub-central (statutory) corporate income tax rate.
2. Data refer to 2012 for Australia.
3. OECD = 100. The variance components in mathematics, sciences and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the sample of students used in the analysis.

Source: Panel A: OECD, *Revenue Statistics and Tax Databases*. Panel B: OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*; and OECD (2013), *PISA 2012 Results: Excellence through Equity (Volume II): Giving Every Student the Chance to Succeed*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201132-en*.

StatLink http://dx.doi.org/10.1787/888933178113

Going for Growth 2015 priorities

Priorities supported by indicators

Enhance capacity and regulation in infrastructure. Addressing infrastructure service shortfalls will help productivity performance and sustainable growth.

Actions taken: Road construction is being expedited as part of wider government plans to improve infrastructure, including federal-government incentives for states to sell assets and use the proceeds for new infrastructure (the Asset Recycling Initiative).

Recommendations: Ensure infrastructure spending delivers value-for-money especially in designing and overseeing construction works and public-private partnerships. Ensure new infrastructure systems integrate environmental concerns through user and congestion charges.

Improve the efficiency of the tax system. Consumption taxes are relatively low while income taxes are heavy. This partially reflects a high headline company tax rate, especially for a capital-importing country like Australia.

Actions taken: The 2014-15 Budget foresees reduction of the corporate tax rate by 1.5 percentage-points and the reintroduction of indexation of excise on vehicle fuels.

Recommendations: Reduce the corporate tax rate as part of a wider reform that also envisages raising the currently low rate of goods and services tax (GST) and/or widening the base. Act towards a rapid international agreement and take measures to prevent base erosion and profit shifting.

AUSTRALIA

Improve performance and equity in education. Enrolment rates in pre-primary education are relatively low. Children from disadvantaged backgrounds face severe educational and skills shortfalls.

Actions taken: Further development of universal early childhood education was agreed by national and state governments in April 2013 (the National Partnership on Universal Access to Early Childhood Education). Reform of school funding is underway (the Gonski reform), including introduction of an allocation formula that gives greater weight to socio-economic factors.

Recommendations: Press on with facilitating access to childcare that is both affordable and scheduled to allow combining work and family life.

Other key priorities

Enhance innovation policy. Innovation activity is comparatively low, reflecting various factors. For instance, there is room to further improve collaboration between firms and universities.

Actions taken: The 2014-15 Budget foresees the creation of the Entrepreneurs' Infrastructure Program (EIP). One component of the EIP is "Research Connections", which provides a brokering service to link SMEs with research organisations and grants of up to ASD 50 000 to engage researchers.

Recommendations: Fiscal conditions allowing, add new mechanisms for boosting collaboration between business and academia, e.g. innovation vouchers for academic contracting. Ensure that these measures incorporate the local context in which they are implemented, that they are simple to use and effectively advertised with efficient brokering.

****Improve opportunities and outcomes for indigenous communities.**** [1] Gaps between the indigenous communities and the rest of the population remain large, including in life expectancy and employment rates.

Recommendations: Simplify and rationalise the system of indigenous-community support; envisage a smaller menu of programmes that focus more tightly on improving health outcomes, educational achievement and labour-market participation.

Reform areas no longer considered a priority in *Going for Growth*

Relax barriers to foreign direct investment. Past recommendations suggested a wider application of lighter screening procedures for foreign-direct investment (as already applied to inward investment from the United States) and to enhance the transparency of such procedures.

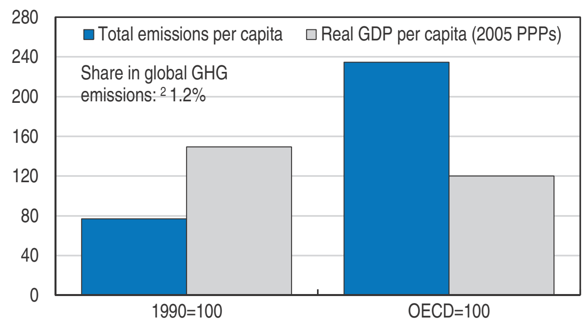
Actions taken: Lighter procedures have applied to New Zealand since March 2013 and are in the pipeline for Korea, Japan and Chile; the rule-based screening system is no longer considered a major impediment to growth potential.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

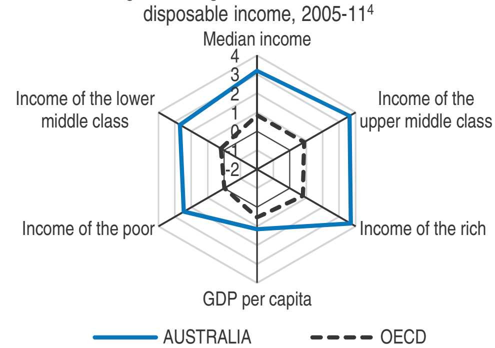
AUSTRALIA

Beyond GDP per capita: Other policy objectives

A. Emissions per capita are well above OECD average
Average 2008-12[1]



B. Households in the upper part of the income distribution have benefited relatively more from growth in GDP per capita[3]
Average annual growth rate in real household disposable income, 2005-11[4]



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2004-12 for Australia.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178547

AUSTRIA

- The narrowing of GDP per capita gap *vis-à-vis* leading OECD economies has recently stalled as labour productivity growth slowed. Unemployment remains low and labour force participation improved especially among older workers and women.
- Progress has been made to tighten eligibility to early retirement schemes and to promote competition in energy network sectors. By contrast, little has been achieved to reduce the labour tax burden and to enhance competition in the service sector.
- Reducing effective marginal income tax rates, in particular for low-income workers, would improve work incentives. This, together with further steps towards eliminating pathways to early retirement, would strengthen labour utilisation. Enhancing competition in the service sector and reducing the strong influence of socio-economic background on education outcomes would foster human capital development and productivity growth.
- Improving outcomes and equity in education, for instance by promoting access to higher quality education for immigrants and disadvantaged youth, would boost skills and reduce inequality. Shifting taxation from labour income towards environmental externalities and wealth would support sustainable growth.

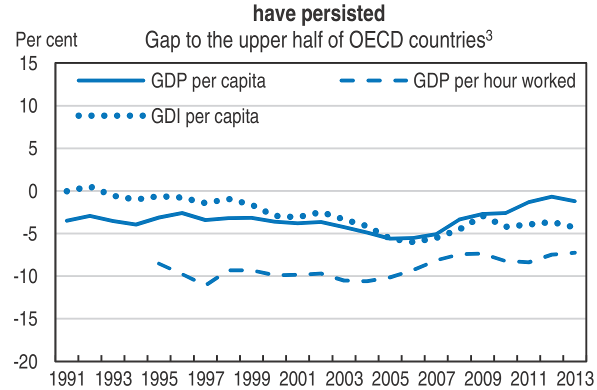
Growth performance indicators

A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.2	1.0
Potential labour utilisation		0.4	0.5
of which:	Labour force participation rate	0.4	0.4
	Employment rate[1]	0.0	0.0
	Trend employment coefficient[2]	0.0	0.1
Potential labour productivity		0.8	0.5
of which:	Capital deepening	-0.2	-0.2
	Labour efficiency	0.7	0.6
	Human capital	0.2	0.2

B. Small gaps in GDP per capita and productivity have persisted



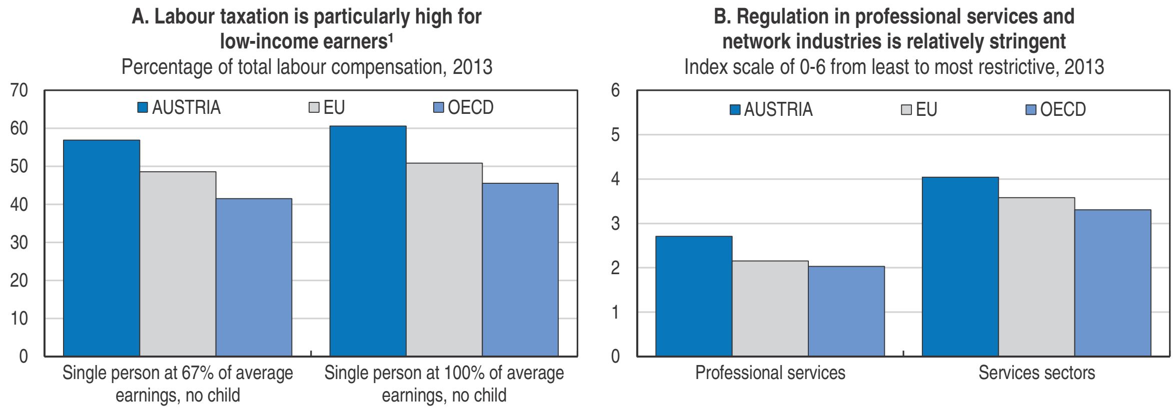
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177690

AUSTRIA

Policy indicators



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.

Source: Panel A: OECD, *Taxing Wages Database*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178120

Going for Growth 2015 priorities

Priorities supported by indicators

Lower marginal tax rates on labour income. High effective marginal tax rates, especially at low income levels, undermine work incentives.

Actions taken: In March 2014, the Austrian Parliament approved a minor reduction of employers' social security contributions by 0.1 pp from July 2014 and an additional 0.1 pp by January 2015.

Recommendations: Reduce the lowest income tax rate as announced in the government's work programme. Partly or fully waive social security contributions, financed by a further broadening of the tax base and increases in consumption, environmental and recurrent property taxes.

Reduce incentives to exit early from the labour force. The effective retirement age remains low and subsidised avenues to early retirement still exist.

Actions taken: Restrictions to early retirement and invalidity pension schemes adopted in previous years came into force on 1 January 2014. Pension eligibility requirements for the long-term insured have been further tightened. The temporary invalidity pension has been abolished for those below the age of 50 and replaced by medical and job-related rehabilitation for those aged 50 and above. These reforms progressively dilute the former early retirement rules ("Hacklerregelung").

Recommendations: Bring the official retirement age for women in line with that for men. Eliminate all remaining subsidised avenues to early retirement. Tighten eligibility to disability pensions also for those above 50 and help partially-disabled workers to better use their remaining work capacity. Reflect changes in life expectancy more directly in the parameters of the pension system.

AUSTRIA

Reduce barriers to competition in professional services and retail trade. Restrictive regulations (including self-imposed ones) in many services hinder competition and productivity growth.

Actions taken: No action taken in 2013-14.

Recommendations: Resume easing restrictive rules in retail trade and liberal professions to allow more competition, without reducing high quality standards and consumer protection.

Other key priorities

Reduce barriers to entry in network industries. Limited competition in network industries slows productivity growth and innovation. Supplier switching rates, though increasing, are well below those of other European countries with liberalised gas and electricity markets.

Actions taken: Progress has been achieved since 2012 with the unbundling of gas and electricity transmission system operators (TSO) into independent transmission operators (ITO). Cross-border and cross-regional integration of networks have been pursued. In the gas market, the authorities have introduced an entry-exit system with centralised virtual trading points that replaces the system based on contractually agreed transport paths. Several proactive initiatives have been launched by the Consumer Information Association (VKI) and the Austrian Energy Regulator (E-Control) to better inform households and businesses about switching opportunities in the gas and electricity markets.

Recommendations: Ensure that network access prices are not kept artificially high. Stimulate competition in railways. Eliminate or reduce remaining cross-subsidies in all network industries.

Improve outcomes and equity in tertiary education. Tertiary education graduation rates, in particular for immigrants, are below EU average, and drop-out rates are high. The influence of socio-economic background on educational outcomes is strong, in particular the migration status. This holds back human capital accumulation, productivity growth and innovation.

Actions taken: Educational and career guidance as well as orientation measures have been extended. In March 2013, an amendment to a university law was enacted, which allows universities to limit the number of students in highly demanded fields by introducing selection processes. Simultaneously, 95 new professorships are created in these fields. Further, the government will create 4 000 additional study places at Universities of Applied Science in order to attenuate supply shortages.

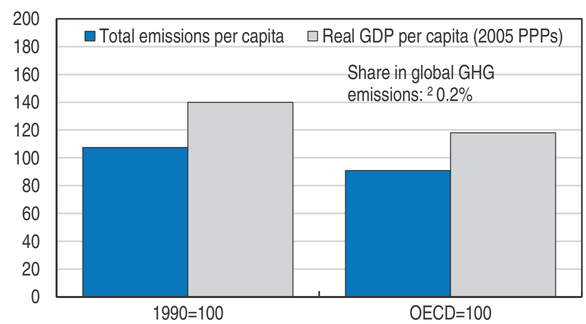
Recommendations: Allow universities to re-introduce tuition fees in order to finance quality improvements in the provision of tertiary education. Such fees should be accompanied by a comprehensive grant and income-contingent student loan system to avoid socio-economic segregation.

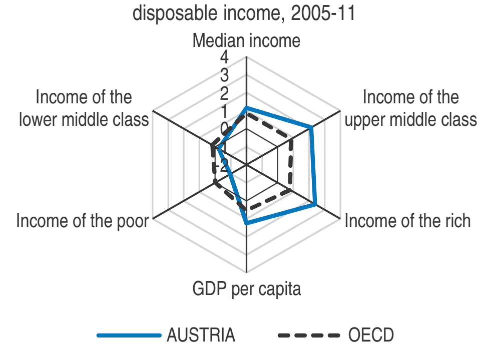
Reform areas no longer considered a priority in *Going for Growth*

For Austria, all priority areas from the 2013 issue of *Going for Growth* are maintained.

AUSTRIA

Beyond GDP per capita: Other policy objectives





1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178550

BELGIUM

- The gap in GDP per capita *vis-à-vis* the upper half of the OECD has recently widened as the limited growth in the labour force participation rate, which remains low by international standards, could not offset the decline in the positive labour productivity differential.
- The government took some steps to reduce labour costs, especially under the "Competitiveness and Employment Pact". Employment has been also supported by an intensification of job search monitoring and an increase, albeit modest, in financial incentives to postpone retirement. Measures to increase competition in the energy sector have led to a fall in prices, but regulatory fragmentation has increased.
- Raising employment is key to enhance growth. This requires a lower labour tax burden and further increases in the effective retirement age. Job creation would also benefit from a more flexible wage determination process and from improvements in the design and integration of unemployment benefits and active labour market policies. Reducing product market regulation in non-tradable sectors would boost competition and productivity growth.
- Raising environmental taxes to help finance reductions in labour tax wedges could favour both higher and more sustainable growth.

Growth performance indicators

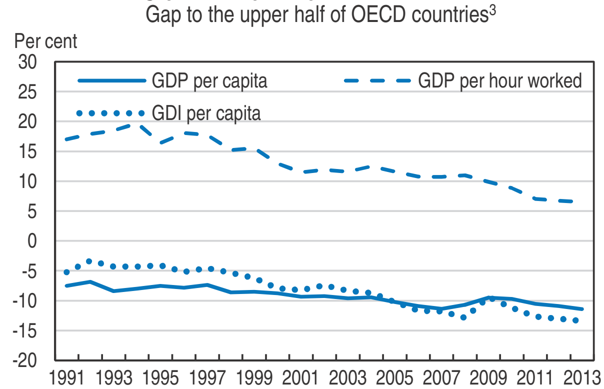
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.0	0.3
Potential labour utilisation		0.3	0.0
of which:	Labour force participation rate	0.3	0.0
	Employment rate[1]	0.0	0.0
	Trend employment coefficient[2]	0.0	0.0
Potential labour productivity		0.7	0.3
of which:	Capital deepening	0.1	0.2
	Labour efficiency	-0.1	-0.4
	Human capital	0.6	0.5

B. The gap in GDP per capita has widened somewhat

Gap to the upper half of OECD countries[3]



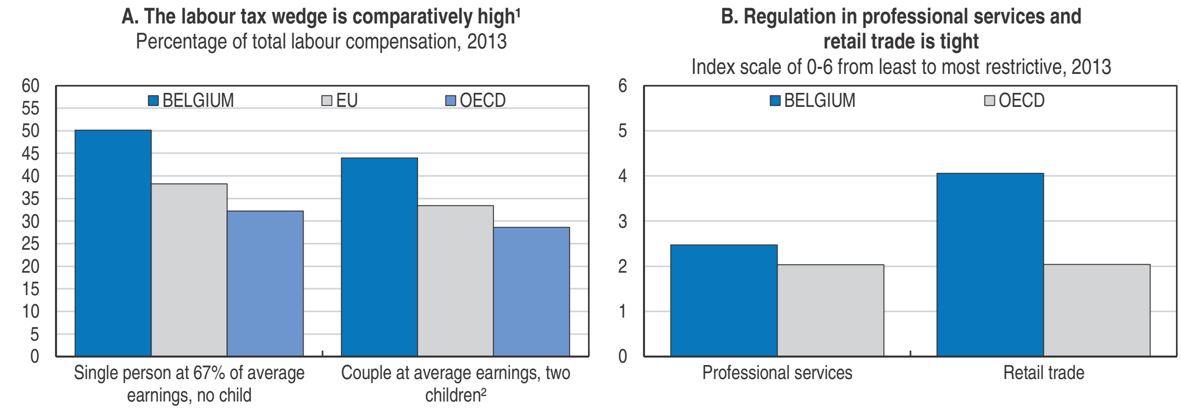
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177704

BELGIUM

Policy indicators



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
2. At 100% of average earnings for the first earner and average of the three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).

Source: Panel A: OECD, *Taxing Wages Database*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178131

Going for Growth 2015 priorities

Priorities supported by indicators

Reduce the labour tax burden and enhance work incentives in the tax system. The interaction of the tax and social security contribution systems hampers labour market participation.

Actions taken: In October 2013, the federal government agreed on several measures to reduce labour costs, in particular for SMEs and companies that hire young unemployed people, albeit the amounts involved are rather small. The important reductions in social security contributions outlined in the 2013 "Competitiveness and Employment Pact" are maintained by the new government, albeit with a different timing. These cuts are targeted at low-paying jobs as well as at tradable sectors that experienced stronger growth in labour costs than in productivity.

Recommendations: Remove spikes in effective marginal tax rates. Narrow the scope of wage subsidies and reductions of social security contributions to low-wage workers. Reduce taxes on labour income and offset the revenue shortfall by a higher reliance on property and environmentally-related taxes.

Reform the unemployment benefit system and strengthen the efficiency of activation policies. Search incentives are undermined by unemployment benefits that are unlimited in time and substantially above social assistance for up to four years. Active labour market policies have a very limited impact at encouraging return to work.

Actions taken: Job search monitoring was intensified in 2013 for newly unemployed people aged between 50 and 55 years and for recent graduates.

Recommendations: Shorten the period during which benefits are gradually decreasing towards their final level and lower the generous ceiling for higher income workers. Start earlier with activation during the unemployment spell, especially through job-search assistance, and widen the definition of suitable jobs as the spell gets longer. Replace age-related exemptions from job-search obligations by individual assessments of work capacity.

Reform the wage bargaining system. The highly co-ordinated wage bargaining system prevents the alignment of wages to productivity developments while automatic wage indexation hampers flexible wage adjustment.

Actions taken: No action taken on wage bargaining. Nevertheless, in early 2014 the price index used for automatic wage adjustments was revised to better reflect changes in consumption patterns. In addition, wage indexation will be temporarily suspended in 2015.

Recommendations: Reform the wage formation process to better reflect domestic productivity developments and preserve external cost competitiveness. To achieve this, remove links to foreign wage developments, decentralise wage negotiations and encourage social partners to phase out the automatic wage indexation mechanism.

Other key priorities

Reduce the implicit tax on continued work. Employment rates for older workers are low due to the widespread use of early retirement schemes and other possibilities for early exit from the labour market.

Actions taken: The 2013 revision of the pension bonus ensured consistency with the gradual tightening of early retirement rules agreed in 2012 and has somewhat increased incentives for longer careers.

Recommendations: Increase the minimum retirement age further and phase out occupational exemptions. Reduce the use of the unemployment benefit system as a gateway to early retirement by extending to all wage agreements the surtax on employer-provided top-ups to unemployment benefits.

Increase product market competition. Restrictive regulation of retail distribution and professional services hampers competition, as does the multi-layered regulatory set-up of network industries.

Actions taken: Costs of switching gas and electricity suppliers have been cut and contract termination penalties were abolished, which led to markedly higher competition since early 2013. However, regional regulators have become responsible for setting and enforcing distribution tariffs, which causes further regulatory fragmentation.

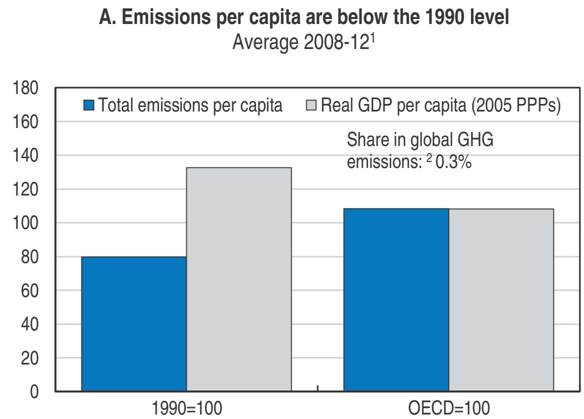
Recommendations: Loosen competition-inhibiting regulations regarding large outlets, opening hours and sales and make regulation for professional services less onerous. Streamline the complicated regulatory structure of network industries by establishing single regulators for each network industry. Simplify universal service obligations, including competitive tendering and government financing.

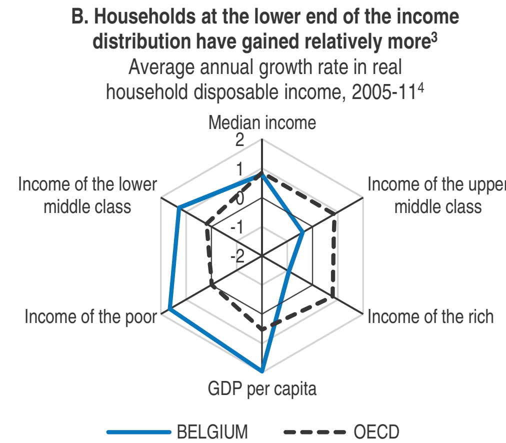
Reform areas no longer considered a priority in *Going for Growth*

For Belgium, all priority areas from the 2013 issue of *Going for Growth* are maintained.

BELGIUM

Beyond GDP per capita: Other policy objectives





1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-10 for Belgium.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*..

StatLink http://dx.doi.org/10.1787/888933178567

BRAZIL

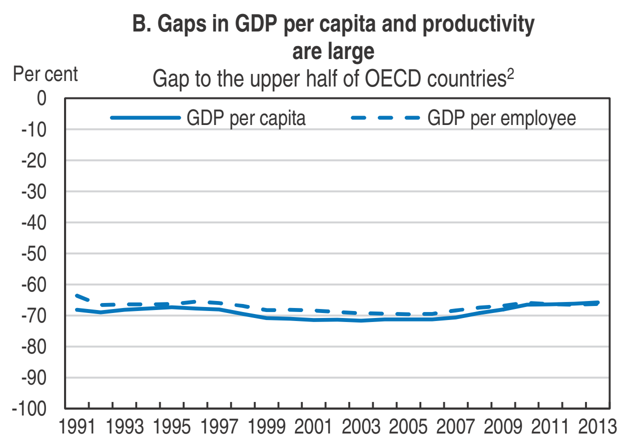
- The narrowing of significant GDP per capita gap with OECD countries has stagnated mainly due to comparatively weak labour productivity performance.
- Measures to reduce informality in the labour market, including reductions in social security contributions, have made this issue less pressing than others, and this priority has been dropped. Progress has also been made in infrastructure investment and in improving access to vocational education. However, the areas of tax reform and financial markets have seen less progress.
- A more educated workforce, better infrastructure, less tax distortions and more efficient financial intermediation would support productivity improvements. Lowering trade barriers has become a priority for Brazil to increase exposure to international competition and strengthen incentives for productivity improvements.
- Educational attainment displays a highly uneven distribution, although recent improvements in access to education have contributed to decreasing income inequality. Additional action in this area would not only increase economic growth, but could at the same time lead to further reductions in income inequality.

Growth performance indicators

A. Average annual growth rates

Per cent

	2003-08	2008-13
GDP per capita	3.7	1.8
Labour utilisation[1]	1.4	0.9
Labour productivity	2.3	0.9



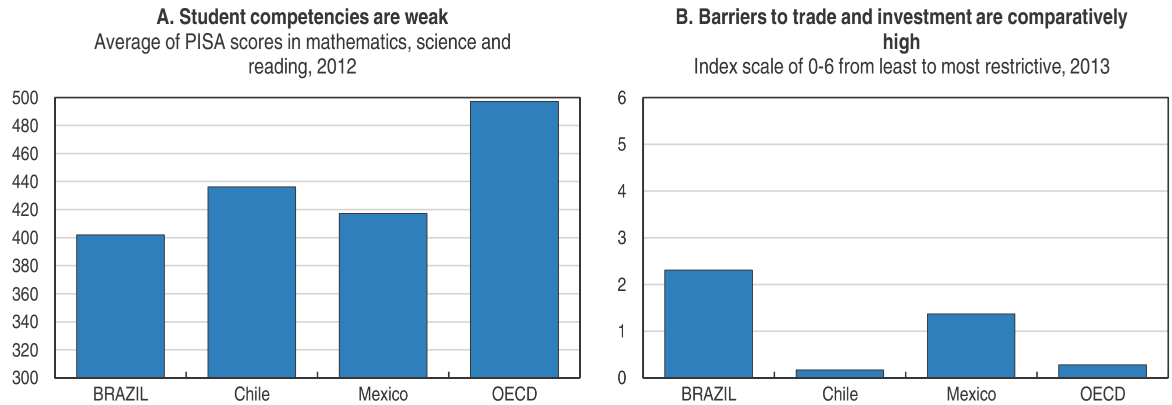
1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per employee (in constant 2005 PPPs).

Source: World Bank, *World Development Indicators (WDI) Database*; and ILO, *Key Indicators of the Labour Market (KILM) Databases*.

StatLink http://dx.doi.org/10.1787/888933178041

BRAZIL

Policy indicators



Source: Panel A: OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178476

Going for Growth 2015 priorities

Priorities supported by indicators

Increase public and private investment in infrastructure. Addressing infrastructure gaps would lead to higher productivity growth and improve export competitiveness.

Actions taken: The Authorities have simplified the procedures for public works with a view to shortening the tender process (2013). Concession contracts have been expanded (2013). A new ports law is expected to enhance investment. 76% of planned investments for 2011-14 under the Growth Acceleration Pact (PAC2) had been spent by end-2013, but there have been delays in project delivery.

Recommendations: Implement planned infrastructure projects. Improve the capacity of subnational governments to execute projects without unnecessary delays. Modernise the port sector, including through regular concession tenders without automatic renewal. In electricity, increase capacity and improve the distribution network. Scale down public current expenditures to promote infrastructure investment.

****Reduce barriers to trade.****[1] Barriers to trade and investment are stringent, which hampers catch-up in productivity.

Recommendations: Reduce tariff protection and phase out local content requirements in publicly financed projects, including infrastructure projects and projects with financing from the national development bank. Rely on horizontal measures to support industrial performance.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

Enhance outcomes and equity in education. Improving education outcomes and equality of educational opportunities would accelerate productivity growth.

Actions taken: Vocational training programmes of low-skilled workers and scholarships for tertiary education have been expanded continuously.

Recommendations: Focus on improving the quality of education through better teacher pay, in-service training and stronger performance incentives. Ensure full-day schooling nationwide and build more schools where needed. Further expand tertiary vocational and professional training programmes to address skill shortages and reduce drop-out rates.

Other key priorities

Reduce distortions in the tax system. A less onerous tax system, particularly for indirect taxes, would contribute to faster productivity gains by reducing tax compliance costs.

Actions taken: No action taken.

Recommendations: Reduce fragmentation and complexity of the tax system. Unify state-level indirect tax rates and tax bases.

Improve the efficiency of financial markets. Long-term financial markets are underdeveloped, hampering capital allocation and productivity.

Actions taken: Despite measures to encourage private engagement in long-term financial markets, such as promoting securities with long maturities including infrastructure bonds (2013), the public sector remains dominant in this segment.

Recommendations: Gradually reduce financial support to the national development bank and focus its lending on the financing of infrastructure, small and medium enterprises and innovation. Continue efforts to facilitate the development of private long-term capital markets.

Reform areas no longer considered a priority in *Going for Growth*

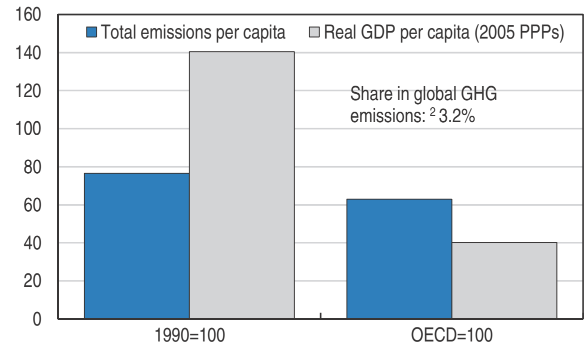
Encourage formal labour force participation, especially among seniors. To encourage formal labour force participation, it was recommended to remove disincentives ensuing from a large labour tax wedge.

Actions taken: Lower social contributions and simplified social security procedures for small and medium enterprises and self-employed persons have reduced hiring costs in the formal sector and increased formal sector participation (2013).

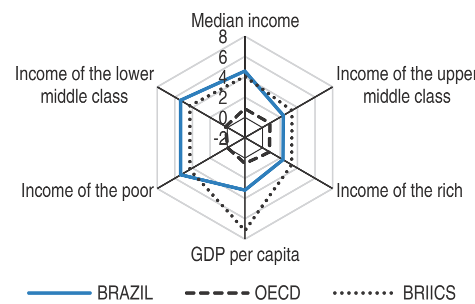
BRAZIL

Beyond GDP per capita: Other policy objectives

A. Emissions per capita are below the 1990 level
2010[1]



B. Growth in real household income was stronger in the lower than in the upper half of the distribution[3]
Average annual growth rate in real household income, 2005-11



1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. Due to data limitations, income levels across the distribution are derived by combining quintile income shares from nationally representative household surveys and gross national income of the household sector from the national accounts. This implies limited comparability with OECD countries' data. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *Energy (IEA) Database*; World Bank, *World Development Indicators (WDI) Database*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: World Bank, *World Development Indicators (WDI) Database*.

StatLink http://dx.doi.org/10.1787/888933178900

CANADA

- GDP per capita remains above the average of the upper half of OECD countries while labour productivity gap persists. Higher terms of trade have pushed GDI per capita above the average.
- Moderate progress has been made in enhancing efficiency of tertiary education and R&D support. Little or no progress has been made on the other priorities.
- Reforms are needed to increase productivity, notably by reducing barriers to FDI, increasing the quantity and quality of R&D and the supply of tertiary skills in demand.
- Improved access to tertiary education for socially disadvantaged students could reduce income inequality while boosting productivity. Raising tax efficiency by relying more on environmentally-related taxes would help to achieve greener growth.

Growth performance indicators

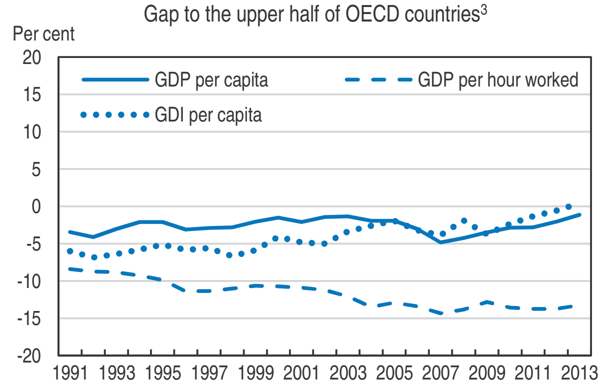
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		0.9	0.6
Potential labour utilisation		0.2	-0.1
of which:	Labour force participation rate	0.2	-0.1
	Employment rate[1]	0.1	0.0
	Trend employment coefficient[2]	0.0	0.0
Potential labour productivity		0.7	0.7
of which:	Capital deepening	0.7	0.7
	Labour efficiency	-0.2	-0.2
	Human capital	0.2	0.1

B. The gap in labour productivity persists

Gap to the upper half of OECD countries[3]



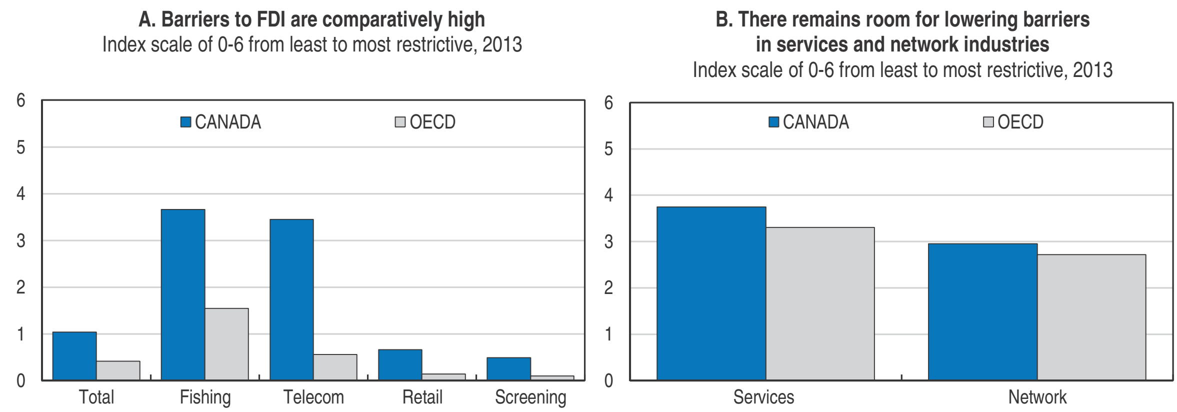
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177719

CANADA

Policy indicators



Source: Panel A: OECD, *FDI Regulatory Restrictiveness Index Database*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178147

Going for Growth 2015 priorities

Priorities supported by indicators

Reduce barriers to entry and enhance competition in network and service sectors. Poor regulation in network and service sectors deters investment and innovation.

Actions taken: In June 2014, the federal government has capped wireless operators' wholesale roaming rates at the levels charged on average to their retail customers.

Recommendations: Move towards more integrated and competitive electricity markets. Privatise Canada Post and eliminate its legally protected monopoly. Ease entry regulations in professional services and licensing requirements in retail trade, and eliminate retail price controls. Make the Agreement on Internal Trade Dispute Resolution Panel more accessible.

Reduce barriers to foreign direct investment. High barriers to FDI hold back trade and FDI.

Actions taken: No action taken.

Recommendations: Lift FDI restrictions in key sectors, such as telecommunications, airlines and broadcasting. Reduce the administrative burden of environmental regulation and discrimination against foreign suppliers in professional services, air and road transport.

Reform the tax system. Economic distortions from taxation could be reduced, including by shifting towards indirect taxes.

Actions taken: In 2013, Prince Edward Island replaced its provincial sales tax (PST) with the Harmonised Sales Tax (HST). The Québec Sales Tax was further harmonised with the HST but British Columbia exited the HST and returned to a PST.

Recommendations: Increase environmental and value-added taxes and reduce regressive and distortive income-tax expenditures to further lower statutory corporate and/or personal income tax rates.

CANADA

Other key priorities

Enhance access and efficiency in tertiary education. Strengthened tertiary outcomes would boost innovation and respond to future labour-market needs.

Actions taken: A government website providing easily accessible information linking fields of study to labour-market outcomes became operational in 2014. The immigration application management system was reformed in 2014 (with effect from 2015) to give priority to qualified potential immigrants with skills in demand. In 2014, Ontario entered into contracts with its tertiary institutions that encourage them to specialise.

Recommendations: Complement income-contingent loans with need-based grants to improve access for students from disadvantaged backgrounds. Promote quality and efficiency by encouraging institutions to specialise in areas where they have a comparative advantage.

Improve R&D support policies. Greater and more targeted R&D investments could enhance innovation outcomes.

Actions taken: The government introduced in 2013 the Venture Capital Action Plan, which will strengthen the venture capital market and increase risk financing available to innovative firms. In 2014, the government established the Canada First Research Excellence Fund, which will support research in post-secondary institutions in strategic fields for Canada.

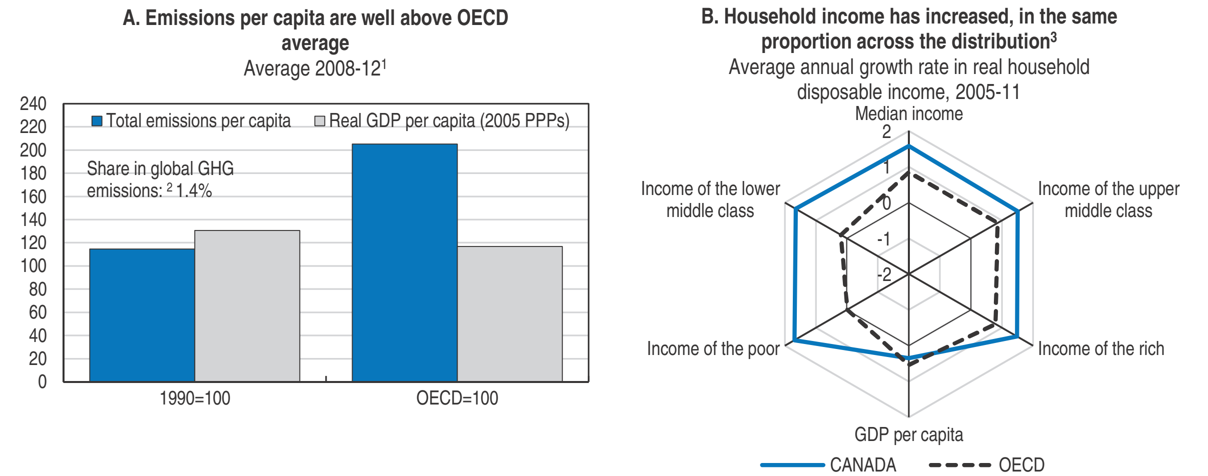
Recommendations: Lower the refundable small-firm Scientific Research and Experimental Development (SR&ED) rate toward the large firm rate and use the savings to reinstate capital costs in the eligible base as well as to increase grants. Allocate grants competitively.

Reform areas no longer considered a priority in *Going for Growth*

For Canada, all priority areas from the 2013 issue of *Going for Growth* are maintained.

CANADA

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178579

CHILE

- The income gap *vis-à-vis* the OECD economies has continued to narrow, reflecting strong growth in employment and physical capital, but it remains significant as a result of low growth in productivity.
- Progress has been made in the area of human capital. However, further improvements in the educational system and easier regulatory procedures for businesses are needed to increase productivity and reduce the income gap with other OECD countries.
- Embracing policies to promote female labour participation, easing labour market regulation and extending unemployment insurance would increase labour supply, enhance labour market efficiency and contribute to growth. Increasing R&D to the level observed in countries at similar level of development and facilitating industry and research linkages with public-private co-ordination would lift innovation and productivity.
- Improving the quality and equity of education while ensuring that the system meets labour market needs would increase employability among young workers, improve productivity, reduce inequalities and dampen the risk of social exclusion.

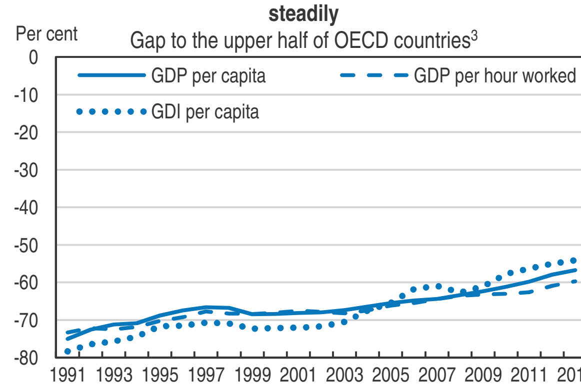
Growth performance indicators

A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		2.5	2.7
Potential labour utilisation		0.9	1.1
of which:	Labour force participation rate	0.7	1.0
	Employment rate[1]	0.2	0.2
	Trend employment coefficient[2]	0.0	0.0
Potential labour productivity		1.6	1.6
of which:	Capital deepening	1.7	1.9
	Labour efficiency	-0.9	-1.1
	Human capital	0.7	0.7

B. The gap in GDP per capita has been narrowing steadily



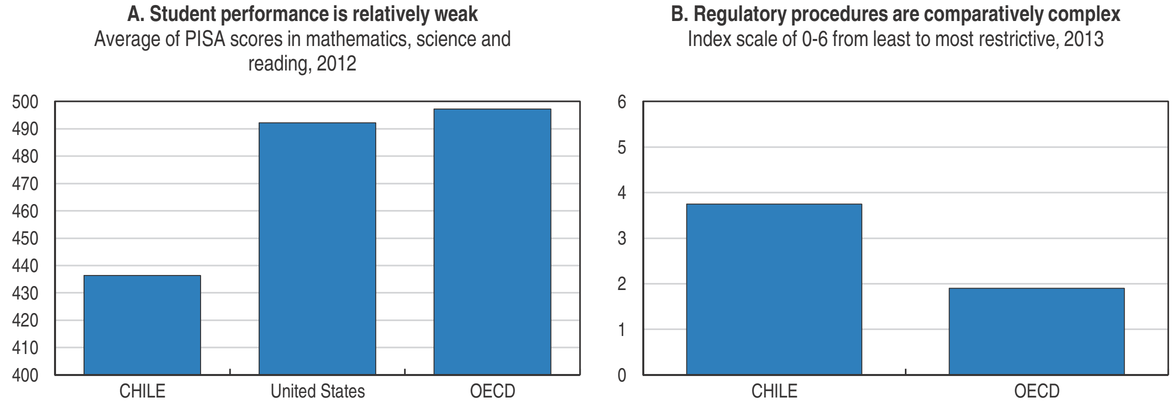
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177727

CHILE

Policy indicators



Source: Panel A: OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178156

Going for Growth 2015 priorities

Priorities supported by indicators

Improve quality and equity in the education system. Limited access to high-quality education lowers outcomes, inhibits productivity and increases income inequality.

Actions taken: A major educational reform was announced in 2014. Measures include ending public funding to private, for-profit schools; making all primary and secondary education free of charge; prohibiting selective practices in the admission processes of schools receiving state funding; and facilitating access to high-quality tertiary education for low-income groups.

Recommendations: Implement the educational reform rapidly. Introduce incentives to promote disciplines such as engineering and basic science. Strengthen vocational education by updating curricula to better reflect job market developments.

Enhance competition and ease regulatory procedures. Enhancing competition in sectors such as telecommunications, and facilitating regulatory procedures for businesses would boost productivity.

Actions taken: The government is promoting reforms to strengthen the antitrust system by creating a preventive merger control system, increasing fines and empowering the National Economic Prosecutor.

Recommendations: Simplify regulatory laws. Increase the level of fines and make price fixing a criminal offence to improve enforcement of the competition law. Improve co-ordination across regulatory agencies and monitor their effectiveness.

Ease employment protection legislation and extend unemployment benefits. Lowering severance pay for regular workers can reduce labour market segmentation by e.g. increasing youth employment, while extending unemployment benefits can enhance labour market efficiency.

Actions taken: No action taken.

Recommendations: Lower the severance pay for regular workers to ease the adjustment of the regular labour force and to encourage the formalisation of employment. Complement this with the implementation of the proposed unemployment benefit reform.

Other key priorities

****Strengthen support to R&D and innovation.**[1]** Chilean firms tend to spend relatively little on innovation, missing important productivity gains.

Recommendations: In order to close the R&D spending gap *vis-à-vis* countries at similar levels of development, facilitate industry and research linkages, and promote public-private co-ordination to exploit natural endowments. Expand government financial support for advanced degrees in fields with substantial technological content (such as engineering and science), as scarcity of qualified workers in these areas limits R&D investment.

Strengthen policies to foster female labour force participation. Promoting female participation rates can increase labour supply, contributing to growth.

Actions taken: The administration is planning to open 4 500 new childcare institutions for children under three years of age during the next four years. Of these, over 500 institutions were already created in 2014.

Recommendations: Ensure rapid implementation of the plan to expand access to childcare.

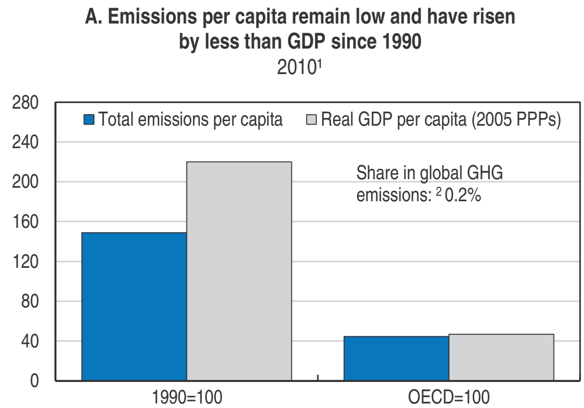
Reform areas no longer considered a priority in *Going for Growth*

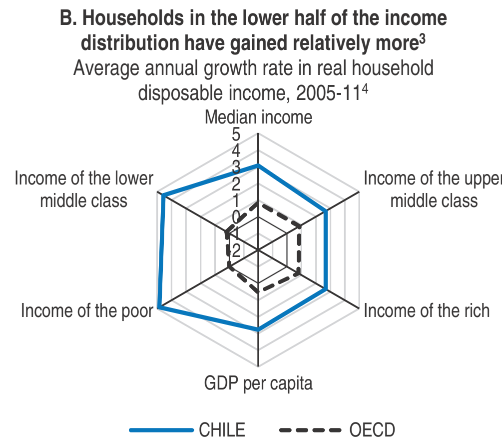
For Chile, all priority areas from the 2013 issue of *Going for Growth* are maintained.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

CHILE

Beyond GDP per capita: Other policy objectives





1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2006-11 for Chile.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178583

CHINA

- GDP per capita continued to catch up with that of the upper half of OECD over 2008-13, although it grew at a slower pace than in the preceding five years. The income gap is attributable to lower output per worker as participation rates are above those in OECD countries.
- Progress is visible in all key priority areas. In particular, several sectors have opened up to private investment and foreign investment approval procedures have been simplified. The focus in tertiary education has shifted from quantity to quality and grass-root interest rate liberalisation is allowing savers to earn better returns.
- Further progress is called for in various areas. A level playing field should be created for all enterprises, with less state involvement in business operations. Financial sector reform should address and reduce regulatory arbitrage. Tertiary education curricula and training should be reviewed to better match labour market needs.
- A gradual extension of social services to migrant workers in an increasing number of cities not only would unleash their consumption potential, thereby supporting growth, but is also likely to make growth more balanced and equitable.

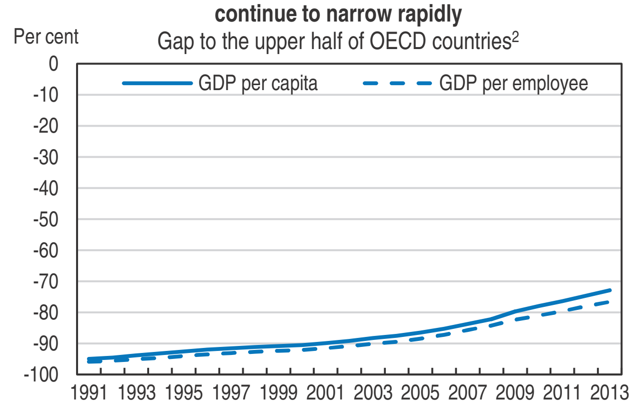
Growth performance indicators

A. Average annual growth rates

Per cent

	2003-08	2008-13
GDP per capita	10.9	8.3
Labour utilisation[1]	-0.1	-0.1
Labour productivity	11.0	8.4

B. The large gaps in GDP per capita and productivity continue to narrow rapidly



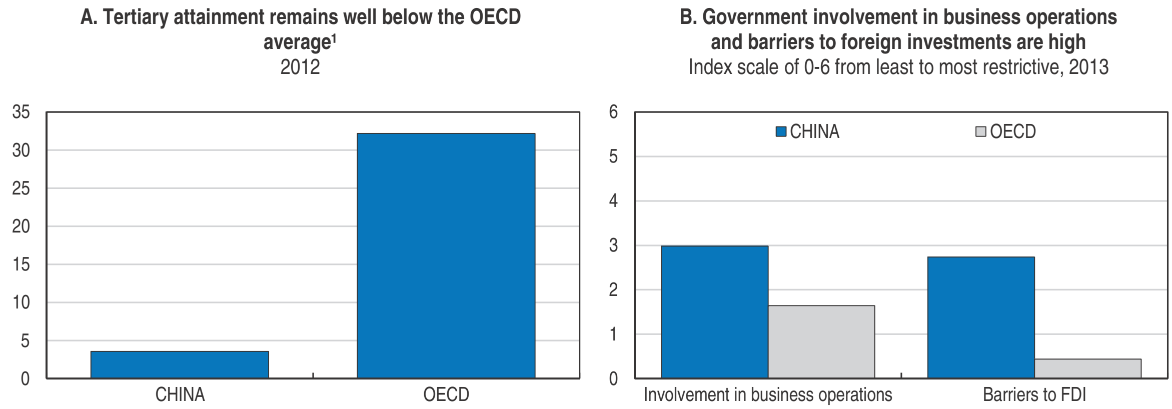
1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per employee (in constant 2005 PPPs).

Source: World Bank, *World Development Indicators (WDI) Database*; and China Ministry of Human Resources and Social Security.

StatLink http://dx.doi.org/10.1787/888933178059

CHINA

Policy indicators



1. Percentage of adults aged 25-64 who have attained tertiary education.

Source: Panel A: OECD (2014), *Education at a Glance 2014: OECD Indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eag-2014-en*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178486

Going for Growth 2015 priorities

Priorities supported by indicators

Reduce state involvement in business operations and encourage private entry. Government policies often override market principles and several sectors are closed to private and foreign firms, reducing efficiency.

Actions taken: The Third Plenum of the Chinese Communist Party in November 2013 emphasised that markets should be given a greater role in all areas of economic activity. At the National People's Congress in March 2014, a number of sectors (such as railways and small financial institutions) were announced to open up to private investment. At the same time, the Shanghai Free Trade Zone adopted a "negative list", i.e. a list of sectors where participation of foreign capital is prohibited, on a trial basis. Between May 2013 and July 2014, around one fourth of administrative requirements (e.g. firms' registration and licensing) were removed or delegated to sub-national governments, making the regulatory approval system more efficient and transparent.

Recommendations: Replace price controls with market-based mechanisms and reduce regulatory barriers to the entry of new competitors while adopting regulation that creates a level playing field, ensures product safety and protects consumer interests.

Ensure a better match between skills available and those demanded in the labour market. Tertiary graduation rates are still relatively low, though increasing, but many graduates cannot find a job.

Actions taken: The Ministry of Education announced in early 2014 that greater emphasis will be put on applied skills versus academic education in universities run by sub-national governments. In June 2014, a decision on strengthening vocational education was adopted by the ministry. Its measures include reconverting many universities at the province level to vocational colleges with a view to better match labour market needs.

CHINA

Recommendations: Improve the matching between the skills acquired through the tertiary education system and those sought by the labour market: introduce new programmes and review curricula, textbooks as well as criteria for establishing the number of students that can be admitted to existing programmes. Make vocational education more attractive at all levels by hiring qualified teachers and establishing good reputation for such programmes.

Strike a better balance between liberalisation and regulation in financial markets. The banking sector is subject to stringent control, while grassroots liberalisation brought to life numerous competitors exempt from such regulations.

Actions taken: Following the removal of the floor on lending rates on 20 July 2013, the agenda for interest rate liberalisation has been set with clear timelines for the first time and measures to rein in off-balance sheet lending have borne fruit. An additional group of sub-national governments have been authorised to issue bonds by a decree from the Ministry of Finance on May 2014, thereby reducing their demand for bank financing. The revised Budget Law allows for debt issuance by province-level governments for welfare-related capital spending subject to a quota approved by the National People's Congress.

Recommendations: Remove implicit state guarantees to enhance risk pricing by financial markets. Ensure that sub-national governments or real estate developer investment plans do not crowd out other borrowers, in particular small- and medium-size enterprises.

Other key priorities

Reduce barriers to labour mobility. The stringent household registration system continues to hinder labour mobility, hence the allocation of resources to where they would be most productive.

Actions taken: Education services have been progressively extended to migrant families: a growing number of cities are granting free access to compulsory education to migrants' children; some cities are allowing them to attend high school and sit for the college entrance exam. Health care services have been extended to migrant workers to varying degrees in cities across the country, albeit the private contribution rates are higher when migrants use the service in cities where they are not registered.

Recommendations: Ensure equal access to education for all, regardless of registration status. Unify healthcare insurance at the national level so that services can be obtained country-wide.

Further enhance the rule of law. Non-compliance with laws and regulations is widespread and a lack of transparency in many aspects of business provides room for discretionary decisions.

Actions taken: Since the new leadership took power in March 2013, non-compliers have been subject to more investigations and fines. Large-scale corruption cases have been publicised to deter potential abuse of power. The Fourth Plenum of the Chinese Communist Party in October 2014 has given priority to enhancing the rule of law, including by strengthening the independence of the judicial system.

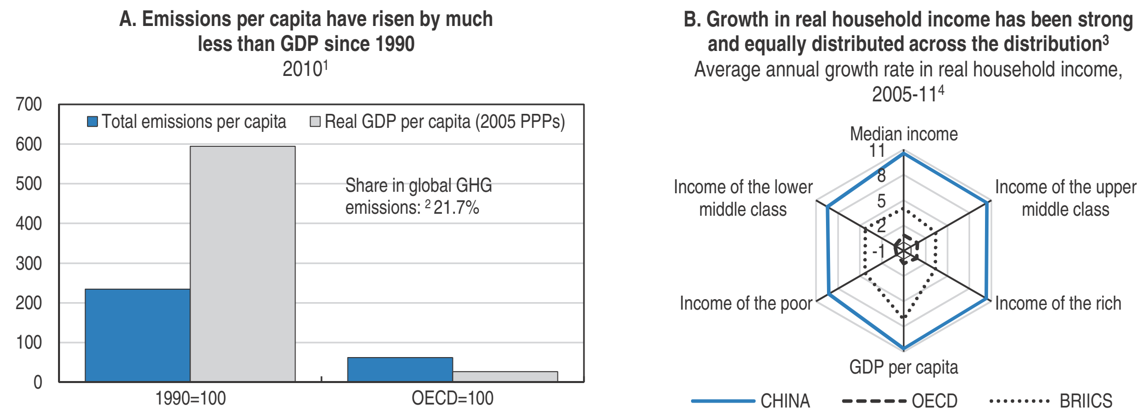
Recommendations: Identify non-compliers in a more rigorous manner to enhance the perception of fairness. Increase transparency in business operations to reduce the scope for bribery.

CHINA

Reform areas no longer considered a priority in *Going for Growth*

For China, all priority areas from the 2013 issue of *Going for Growth* are maintained.

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. Due to data limitations, income levels across the distribution are derived by combining quintile income shares from nationally representative household surveys on consumption expenditures and gross national income of the household sector from the national accounts. This implies limited comparability with OECD countries' data and generally an underestimation of inequality compared to measures based on income. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-10 for China.

Source: Panel A: OECD, *Energy (IEA) Database*; World Bank, *World Development Indicators (WDI) Database*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: World Bank, *World Development Indicators (WDI) Database*.

StatLink http://dx.doi.org/10.1787/888933178918

COLOMBIA[1]

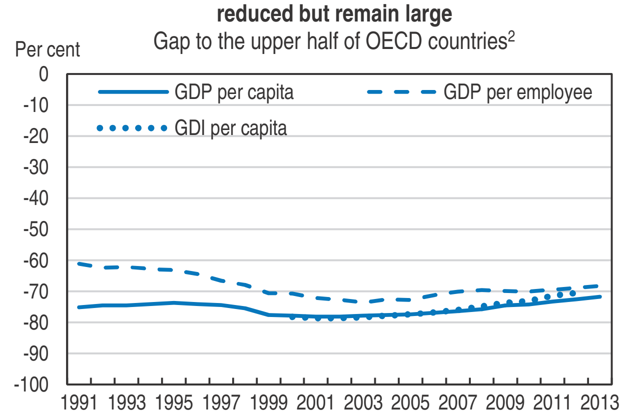
- The gap in GDP per capita against high-income OECD economies has started to narrow but remains large. Labour productivity improvements have been positive but modest given the large gap.
- Improving quality and equity in the education system would raise human capital and productivity. Labour market reforms to reduce non-wage labour costs and to allow for more flexibility in minimum wage determination would encourage formal employment and boost labour productivity. Enhancing framework conditions for infrastructure investment and business R&D would also allow for faster catching-up *vis-à-vis* higher-income countries.
- Expansion of pre-primary education and access to tertiary education would favour disadvantaged groups the most, raising their employability and income prospects throughout their working lives. Infrastructure investments to connect people from rural and isolated regions to economic centres and to lower transportation costs could help reducing poverty. Multimodal transport infrastructure would make growth greener by reducing CO_2 emissions.

Growth performance indicators

A. Average annual growth rates
Per cent

	2003-08	2008-13
GDP per capita	3.9	2.7
Labour utilisation[1]	-0.1	1.6
Labour productivity	4.0	1.1

B. Gaps in GDP per capita and productivity are being reduced but remain large
Gap to the upper half of OECD countries[2]



1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per employee and GDI per capita (in constant 2005 PPPs).

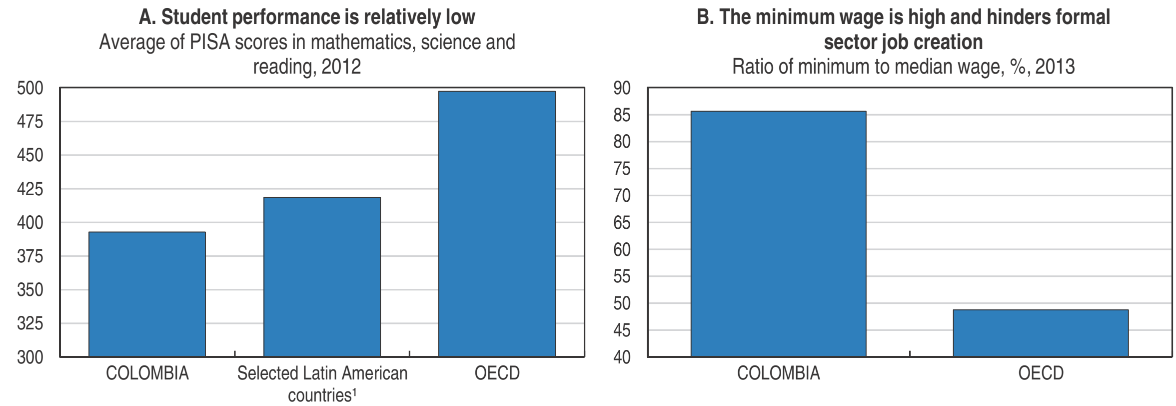
Source: OECD, *National Accounts Database*; and World Bank, *World Development Indicators (WDI) Database*.

StatLink http://dx.doi.org/10.1787/888933178090

1. Since this country is covered for the first time in *Going for Growth*, structural reform priorities are all new by definition, which implies that there is no follow-up on actions taken on those priorities. Available data do not yet allow for identifying indicator-based priorities by matching performance against policy indicators, as a result in this edition the identification of priorities is of qualitative nature and relies on country expertise.

COLOMBIA

Policy indicators



1. Average of Chile, Mexico and Brazil.

Source: Panel A: OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*. Panel B: OECD, *Employment Outlook Database*; and Colombia, Departamento Administrativo Nacional de Estadística (DANE).

StatLink http://dx.doi.org/10.1787/888933178523

Going for Growth 2015 priorities

Improve efficiency and equity in education. Enrolment rates in pre-primary and tertiary education are low and the quality is poor by OECD standards.

Recommendations: Broaden access to pre-primary education and increase its quality, in combination with a significant rise of complementary investments in early childhood such as health. Increase the accountability of tertiary educational institutions by conditioning funding partially on student performance, teaching staff indicators and labour market relevance. Expand and better target the interest-free loans provided by the Colombian Institute of Student Credit to low-income students.

Enhance* ex ante *assessment and supervision of infrastructure investment. Infrastructure gaps are large and investments have been effective at neither boosting productivity nor reducing regional disparities.

Recommendations: Focus on *ex ante* cost-benefit analysis and evaluation of PPP projects, especially at the sub-national level (in the prioritisation, planning and structuring phases). Carry out environmental and social assessments – including consultation processes – before granting contracts. Further develop Colombia's large potential for multimodal transport to reduce transport costs and environmental degradation.

Reform the minimum wage. The minimum wage is relatively high and this hinders formal labour force participation.

Recommendations: Limit the increase of the minimum wage with a view to reducing progressively its level relative to the median wage. Consider differentiating minimum wages for youth in order to better account for differences in productivity.

Reduce non-wage labour costs. Despite their reduction in the 2012 tax reform, non-wage labour costs are still high pushing many people into unemployment or informality. This is partly due to the reliance on social security contributions and non-tax compulsory fees to finance some redistributive policies.

Recommendations: Consider changing the tax mix by reducing contributions and fees and financing social expenditures with less distortive taxes such as property and environmental ones and broadening VAT and income tax bases. Lower other non-tax compulsory employer payments. Convert some social schemes (e.g. *Cajas de Compensación Familiar*) from mandatory to voluntary.

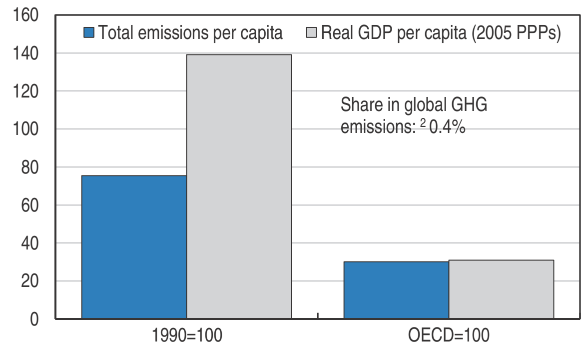
Improve the efficiency of R&D support. R&D expenditure and patents applications are low compared to OECD economies and countries from Latin America and the Caribbean. This hampers productivity growth and catch-up.

Recommendations: Increase public support for business investment in innovation. Improve framework conditions for innovation, entrepreneurship and attractiveness for FDI by focusing on skills (such as engineering, design and ICT) and broaden the set of instruments to foster business investment in innovation capabilities (by increasing matching grants and rewards for inter-firm networks). Consider strengthening governance in science, technology and innovation to make the best use of the increased funding under the new royalty system for subnational STI projects.

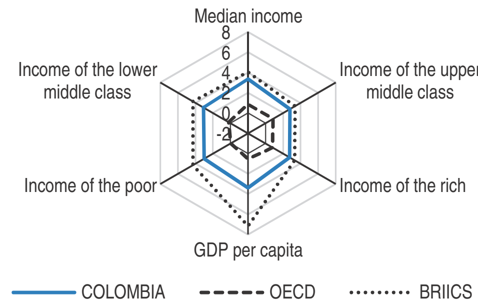
COLOMBIA

Beyond GDP per capita: Other policy objectives

A. Emissions per capita are below the 1990 level
2010[1]



B. Growth in GDP per capita has been equally beneficial across income groups[3]
Average annual growth rate in real household income, 2005-11



1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. Due to data limitations, income levels across the distribution are derived by combining quintile income shares from nationally representative household surveys and gross national income of the household sector from the national accounts. This implies limited comparability with OECD countries' data. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *Energy (IEA) Database*; World Bank, *World Development Indicators (WDI) Database*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: World Bank, *World Development Indicators (WDI) Database*.

StatLink http://dx.doi.org/10.1787/888933178956

CZECH REPUBLIC

- The income gap *vis-à-vis* leading OECD economies has remained unchanged since 2007, reflecting a marked deceleration of labour productivity that more than overshadowed higher capital intensity.
- Public procurement has been strengthened by measures to increase transparency and surveillance.
- The income convergence process could be restarted by reducing barriers to competition, removing obstacles to female labour market participation and moving towards a more growth-friendly tax system (i.e. relying more on consumption and green taxes and less on labour taxes).
- Reforms to raise female labour market participation and equity in education would reduce income inequality, as well as boosting growth. Green and growth-friendly tax reforms could lower the economy's high energy reliance and thus CO_2 emissions.

Growth performance indicators

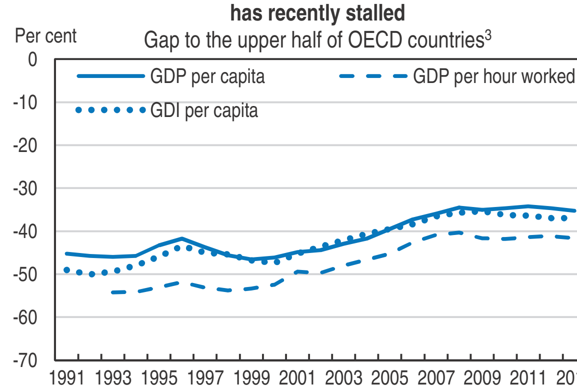
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		2.8	1.1
Potential labour utilisation		0.0	-0.1
of which:	Labour force participation rate	-0.2	-0.1
	Employment rate[1]	0.2	0.1
	Trend employment coefficient[2]	0.0	0.0
Potential labour productivity		2.8	1.1
of which:	Capital deepening	0.0	0.5
	Labour efficiency	2.3	0.3
	Human capital	0.5	0.4

B. Convergence of income and productivity levels has recently stalled

Gap to the upper half of OECD countries[3]



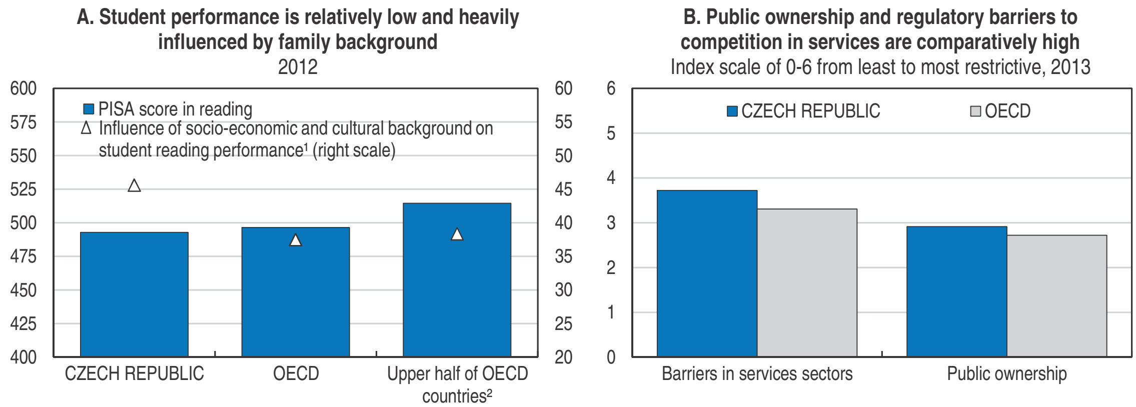
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177730

CZECH REPUBLIC

Policy indicators



1. Measures the strength of the link between the reading score and the socio-economic index. Defined as the estimated coefficient from the country specific regression of PISA reading performance on corresponding index of economic, social and cultural status (ESCS).
2. Upper half of OECD countries in terms of PISA score in reading.

Source: Panel A: OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*; and OECD (2013), *PISA 2012 Results: Excellence through Equity (Volume II): Giving Every Student the Chance to Succeed*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201132-en*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178165

Going for Growth 2015 priorities

Priorities supported by indicators

Enhance competition in the domestic economy.[1] A competitive service sector is key to boost value added in production, stimulate innovation and exploit domestic sources of growth.

Recommendations: Privatise and divest state-owned enterprises and activities in competitive sectors and segments. Concentrate governance of remaining state-owned enterprises within a single authority. Ensure that the leniency programme to unearth cartels works properly and that efforts to eliminate bid-rigging are successful. Remove the special sector regulation protecting small suppliers of food to retailing chains from the competition policy framework. Boost competition in vertically-integrated industries via effective ownership unbundling or via holding structures with financial separation of activities.

Enhance equity and outcomes in education. Strengthening skill development and school-to-work transitions would raise employment among low-skilled workers and facilitate the adoption of higher value-added production.

Actions taken: Tax deductions were introduced to support workplace training in 2014. The Government approved the Education Policy Strategy 2020, a policy framework aiming at enhancing quality of education in general and specifically addressing equity in education. Parts of the Strategy have entered the legislative phase.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

CZECH REPUBLIC

Recommendations: Phase out early streaming. Increase employers' participation in vocational training by simplifying the institutional framework and governance of vocational education and training (VET). Review the effectiveness of the recently-introduced training incentives in terms of encouraging employers to provide training to young unskilled workers and VET students experiencing difficulty finding work placements. Attract and retain high-quality personnel in schools with pupils from low socio-economic background. Secure quality and resources for tertiary education by introducing output-based accreditation criteria for university staff and student fees, accompanied by a system of means-tested grants and income-contingent repayment loans.

Remove obstacles to female labour market participation. Raising female labour force participation would foster economic growth and help families to reconcile family and working lives.

Actions taken: In 2014, legislation was passed to increase the scope of childcare facilities, by encouraging provision from parents' employers, churches, municipalities, foundations and universities. At the same time, the authorities introduced a tax credit for pre-school care and education expenses (up to an amount equivalent to the minimum wage per child and per year).

Recommendations: Monitor the effectiveness of the new legislation on childcare services, with a view to ensuring quality along with quantity. Conditional on an adequate supply of affordable and high quality early childcare facilities, reduce the maximum duration of parental leave and lower the parental allowance commensurately with the newly introduced tax credit.

Other key priorities

Reform the tax system. High tax wedges on labour income have adverse employment effects.

Actions taken: No action taken. Backward steps took place in 2014 by abandoning both the planned "Single Collection Point" (foreseen for a range of taxes) and the unification of VAT rates.

Recommendations: Lower the average labour tax wedge for low income earners and increase the progressivity of the tax system. Shift the tax burden from direct to less distorting taxes, such as environmental and immovable property taxation while linking the latter to actual market prices.

Raise effectiveness of R&D support policies. Relatively high public R&D expenditure does not translate into strong innovation outcomes.

Actions taken: The current co-operation programme between enterprises and higher education institutions is planned to be continued over the period 2014-20. In 2014, the tax deduction for R&D business spending increased from 100% to 110% for new spending compared with the previous tax period. A 2012-15 project was launched to create a new system for evaluation and financing of research, development and innovation.

Recommendations: Further reinforce industry-science linkages. Evaluate whether the shift of public R&D spending from institutions to competitively-awarded project funding has raised the effectiveness of R&D support. Expand the scope of international R&D collaboration.

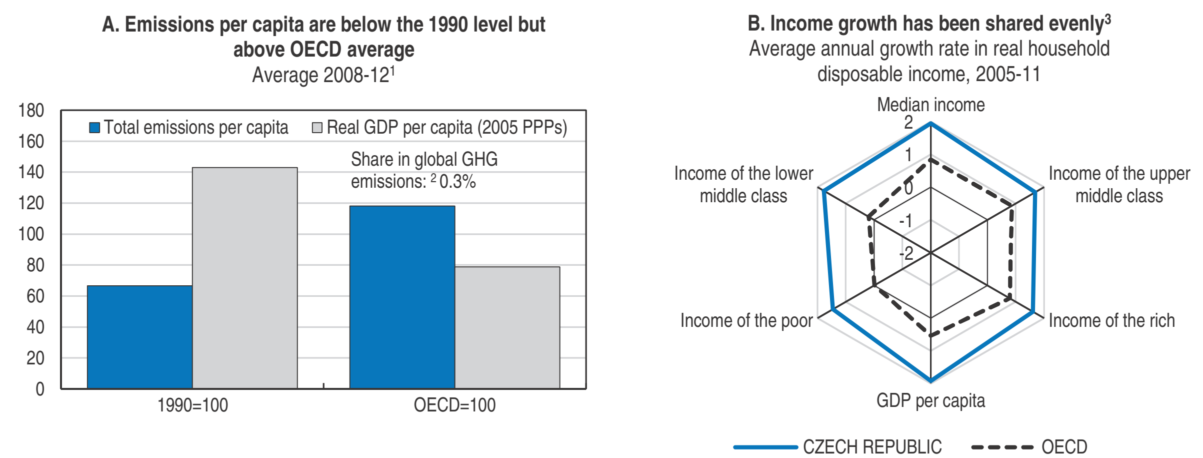
CZECH REPUBLIC

Reform areas no longer considered a priority in *Going for Growth*

Improve efficiency in public procurement. In order to support productivity while preserving fiscal objectives, it was recommended to improve efficiency in public procurement practices.

Actions taken: Reforms introduced in April 2012 raised the effectiveness of surveillance of public procurement procedures, by: i) requiring the contracting authority to publish tender documentation and the price actually paid; and ii) introducing sub-contractors in public procurement. Nevertheless, adequate support for the administration of the procedures is critical.

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178595

DENMARK

- The income gap relative to the upper half of OECD economies has continued to widen over the past few years, mostly due to weaker labour utilisation. Employment rates are high, but hours worked are below the OECD average.
- Progress has been made in priority areas to enhance product market competition and improve the efficiency of the education system. Reforms have also been undertaken to encourage the transition of sick and disabled workers into employment. However, less has been achieved in reducing distortions in the housing market.
- Continuing to shift the tax burden away from income and reducing potential pathways to early retirement would increase hours worked and employment rates. Enhancing the competition framework and reducing housing market rigidities, as well as improving the efficiency and quality of the education system would boost productivity growth.
- Measures that reduce drop-out rates in upper-secondary education would boost human capital formation and reduce inequality through improving incomes at the lower end of the income distribution.

Growth performance indicators

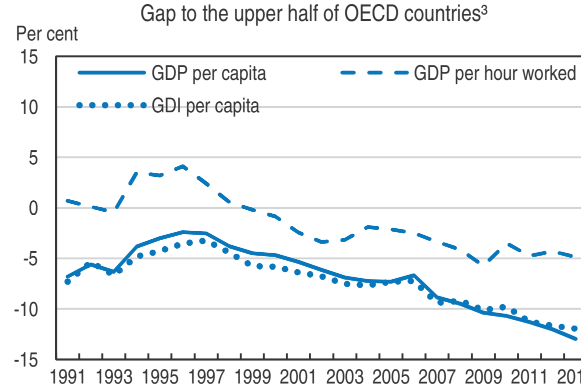
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		0.8	-0.1
Potential labour utilisation		0.0	-0.5
of which:	Labour force participation rate	-0.2	-0.6
	Employment rate[1]	0.0	-0.2
	Trend employment coefficient[2]	0.2	0.2
Potential labour productivity		0.8	0.5
of which:	Capital deepening	0.6	0.4
	Labour efficiency	0.0	-0.1
	Human capital	0.2	0.2

B. The gap in GDP per capita continues to widen

Gap to the upper half of OECD countries[3]



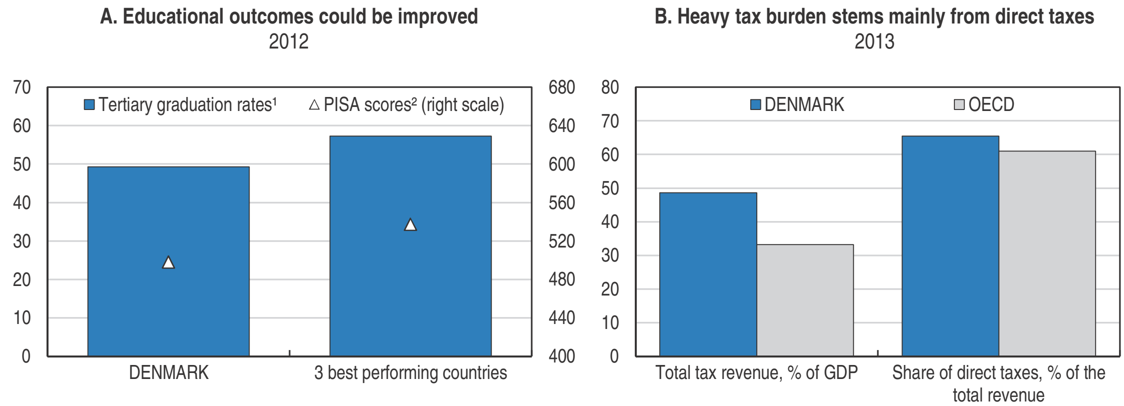
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177744

DENMARK

Policy indicators



1. Graduation rate for typical age at tertiary type-A level (first-time graduate).
2. Average of PISA scores in mathematics, science and reading.

Source: Panel A: OECD (2014), *Education at a Glance 2014: OECD Indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eag-2014-en*; and OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*. Panel B: OECD, *Revenue Statistics Database*.

StatLink http://dx.doi.org/10.1787/888933178174

Going for Growth 2015 priorities

Priorities supported by indicators

Shift the tax structure away from income. The overall tax burden is high. Lowering and shifting taxation from labour and corporate income to indirect taxes and taxes on immovable property would help boost growth.

Actions taken: The corporate tax rate is being gradually reduced: it has been cut from 25% in 2013 to 24.5% in 2014 and should reach 22% in 2016.

Recommendations: Shift the tax burden further away from labour and corporate income, notably by raising taxes on immovable property once the recovery of the housing market is well under way. Streamline tax expenditures.

Reform sickness leave and disability benefit schemes. The share of the working-age population receiving disability and sickness benefits is relatively high, reducing labour utilisation. This situation partly reflects institutional weaknesses; for example that disability benefits are granted on a permanent basis for those above 40 years old.

Actions taken: In early 2013, a new rehabilitation model replaced the disability benefit scheme, emphasising integrated health and employment services and reducing the number of people entitled to a permanent disability benefit. Individuals receiving sickness benefits now have their case reassessed after five months to determine if they can be reintegrated into the labour force.

Recommendations: Ensure that permanent entitlements to disability pensions are only granted under special circumstances so that these schemes do not become a new pathway to early retirement. Focus on prevention measures targeted at groups that display higher inflow rate into disability benefits, such as young people with long spells on social benefits.

DENMARK

Enhance the competition framework and ease regulation in specific service sectors. Enhancing competition in some sectors, especially a number of domestically oriented service sectors, would boost productivity.

Actions taken: As from March 2013, the penalties for individuals and businesses that are members of cartels have been raised significantly. Competition for contracts relating to public sector works, services and supplies has been promoted by reducing rules and improving the guidance relating to tendering processes.

Recommendations: Enhance competition in the service and construction sectors by easing zoning and planning regulations; streamline the institutional set-up of the competition authorities; improve the efficiency of public procurement rules.

Other key priorities

Improve the efficiency of the education system. Enhancing the efficiency and quality of the education system would raise human capital.

Actions taken: In April 2013, the state grant system for tertiary education was reformed to speed up course completion. In 2013 the first phase of a plan to improve vocational education and training (VET) programmes was implemented, including the establishment of 50 placement centres nationwide. In February 2014, the government reached a broad political agreement to introduce entry requirements for admission to VET programmes and talent tracks for the most talented students, as well as a guaranteed minimum of 26 hours of teaching per week from 2016.

Recommendations: Continue to develop the evaluation framework in compulsory and higher education. Develop VET programmes that take into account likely future structural changes in the economy and offer pathways to tertiary education. To improve the adult learning system, provide greater incentives for educational institutions to recognise prior learning, increase the quality of courses and expand on-the-job training opportunities. To lower drop-out rates in upper-secondary education, focus on early identification of weaker students and develop targeted initiatives towards them.

Reduce distortions in the housing market. Existing policies such as housing subsidies and rent regulation reduce labour market mobility, hence also the allocation of resources to where they are most productive.

Actions taken: The tax deductibility of mortgage interest is being made less generous, decreasing gradually from 30.5% to 25.5% by 2020 for interest costs that exceed DKK 50 000.

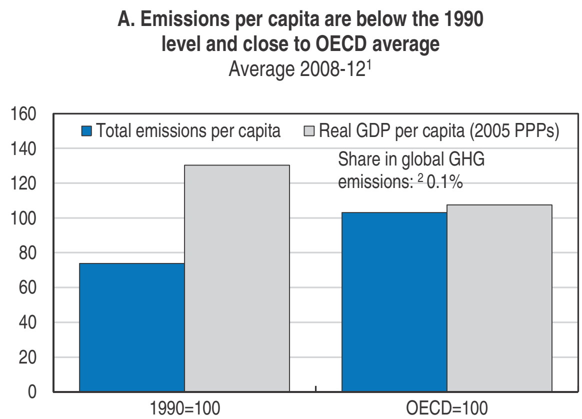
Recommendations: Ease rent regulations and cut housing subsidies. Continue to reduce mortgage interest relief.

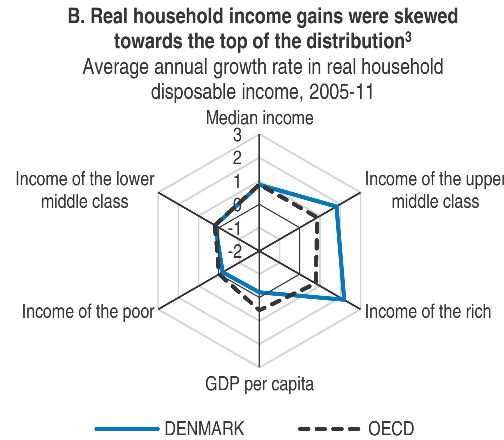
Reform areas no longer considered a priority in *Going for Growth*

For Denmark, all priority areas from the 2013 issue of *Going for Growth* are maintained.

DENMARK

Beyond GDP per capita: Other policy objectives





1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178607

ESTONIA

- The GDP per capita gap *vis-à-vis* the upper half of OECD countries is substantial. This gap in living standards reflects a shortfall in productivity, where convergence has slowed. Labour market participation is high, but structural unemployment remains elevated.
- Spending on activation policies has been increased but remains low. The tax wedge on labour has been reduced, but efforts should be pursued in this area, especially for low-pay workers. The new means-tested student support system should facilitate access to tertiary education.
- Improving vocational education and training (VET) as well as access to tertiary education, encouraging business innovation, and addressing shortfalls in energy market regulation would reduce the productivity gap. Strengthening active labour market policies and reducing the labour tax wedge for low-wage earners would help combating structural unemployment.
- Strengthened active labour market and education policies as well as a pro-poor tax wedge reduction would not only stimulate growth, but also make it more inclusive. A shift to environmental taxation and effective regulation of energy markets would promote green growth.

Growth performance indicators

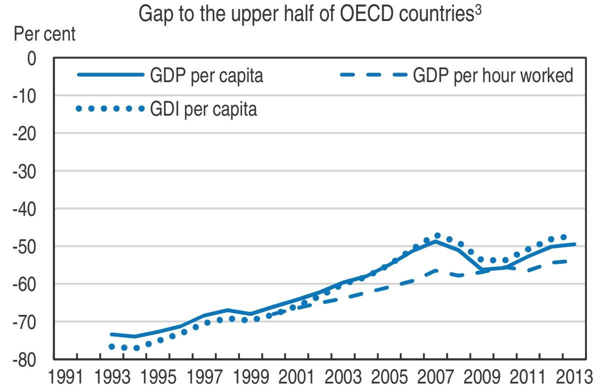
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		4.1	1.8
Potential labour utilisation		0.2	0.2
of which:	Labour force participation rate	0.2	0.1
	Employment rate[1]	0.2	0.2
	Trend employment coefficient[2]	-0.2	-0.2
Potential labour productivity		3.9	1.7
of which:	Capital deepening	2.5	1.3
	Labour efficiency	1.2	0.5
	Human capital	0.1	-0.1

B. Convergence in GDP per capita has resumed

Gap to the upper half of OECD countries[3]



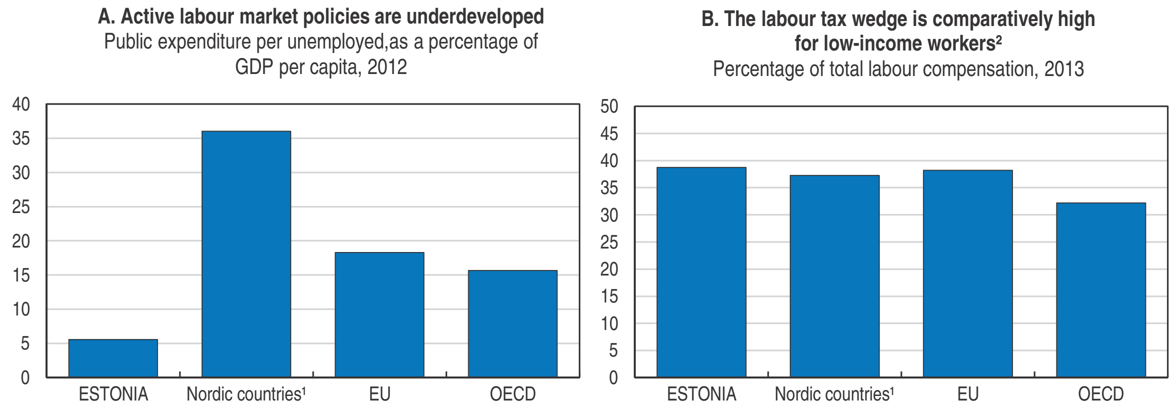
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177756

ESTONIA

Policy indicators



1. Average of Denmark, Finland, Norway and Sweden.
2. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Single person at 67% of average earnings without children.

Source: Panel A: OECD, *Public expenditure and participant stocks on LMP and Economic Outlook Databases*. Panel B: OECD, *Taxing Wages Database*.

StatLink http://dx.doi.org/10.1787/888933178184

Going for Growth 2015 priorities

Priorities supported by indicators

Strengthen active labour market policies. High long-term unemployment, a high share of disability benefit recipients and skills mismatches reduce potential output.

Actions taken: Spending on activation policies increased in 2014, but remains low in international comparison. New active labour market programmes were introduced in 2014, targeted at risk groups, e.g. the long-term unemployed and youth.

Recommendations: Further increase overall spending on activation policies and target them at key risk groups. Target wage subsidies towards low-wage earners. Encourage stronger involvement of employers in the choice of training courses and enhance their quality. Reform the disability benefit system by expanding access to activation measures for individuals with disabilities and by strengthening the assessment of work capabilities. Involve employers in prevention and rehabilitation measures.

Reduce labour taxation by shifting the burden to less distortive sources. High labour tax wedges reduce employment opportunities, particularly among the low-skilled.

Actions taken: The unemployment insurance contribution rate was reduced, from 4.2% to 3% in 2013 and to 2.4% at the beginning of 2015. The income tax-free allowance was raised, from EUR 145 to EUR 154 in 2014. The flat income tax rate will be reduced from 21% to 20% in 2015. Exemptions from VAT for privately used company cars will be limited and the efficiency of VAT tax collection raised. Tobacco and alcohol taxes were increased between 2013 and 2015. However, taxation of the land underneath detached houses was abolished in 2013.

Recommendations: Reduce labour taxation, focusing on low-wage earners. Remove distortive personal income taxation exemptions, notably for mortgage payments. Increase environmental and real estate tax revenues, for instance by aligning tax rates on the various energy sources according to their CO_2 emission content, by removing exemptions in the taxation of land and by making use of market-based valuation for assessing real estate taxes.

ESTONIA

Enhance the effectiveness of innovation policies. Weaknesses in the institutional framework and implementation of innovation policies hamper knowledge transfers and productivity catch-up.

Actions taken: The government adopted a new smart specialisation strategy in 2013. It identifies three priority areas for growth: information and communications technology, healthcare and more efficient use of resources. Responsibilities for R&D policies were clarified and co-ordination across ministries was strengthened. Indicators were developed to measure the effectiveness of innovation policies.

Recommendations: Streamline the institutional framework for research and innovation. Enhance monitoring and evaluation of support schemes. To strengthen knowledge transfers to domestic firms, promote applied research and encourage the collaboration of firms with domestic and foreign institutions conducting applied research.

Other key priorities

Promote efficiency in the regulation of energy markets.*[1] Current regulation of energy industries and limited network integration with the EU contribute to high energy consumption and CO_2 emissions, damping productivity performance and sustainable growth prospects in the long-term.

Recommendations: Gradually align and raise tax rates on energy sources according to the externalities they generate. Continue to integrate gas and electricity networks with the EU. Strengthen incentives to improve efficiency in the regulation of heating networks.

Improve quality of vocational education and training and access to tertiary education. Low quality of vocational education and training and poor access to tertiary education complicate school-to-job transitions.

Actions taken: A task force was set up in 2014 to develop policy tools aimed at improving the matching between supply and demand of skills. Recent reforms in this area have focused on e.g. increasing practitioners' involvement into vocational education and promoting entrepreneurship training. A new means-tested grant system for university students was launched in 2013.

Recommendations: Further strengthen incentives for employers to offer apprenticeship places for youth in vocational education. Introduce a tax-free lower minimum wage for apprenticeships and improve financial support for students in vocational education. Strengthen collaboration of businesses and schools at the local level. Continue to step-up means-tested support for university students. Expand the student loan system and consider making repayment contingent on income.

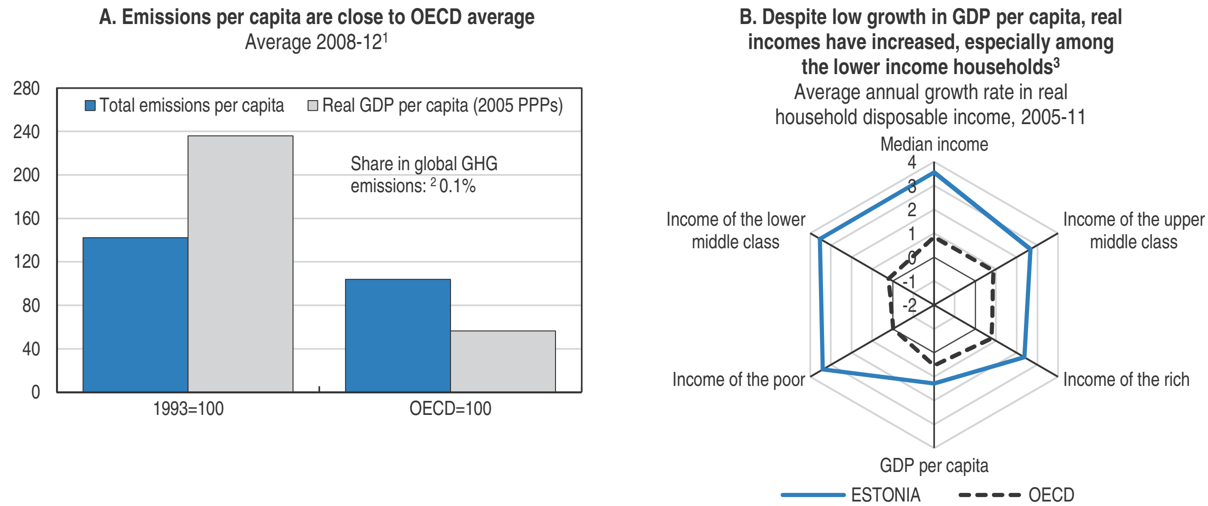
Reform areas no longer considered a priority in *Going for Growth*

For Estonia, all priority areas from the 2013 issue of *Going for Growth* are maintained.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

ESTONIA

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178612

EUROPEAN UNION

- The income gap *vis-à-vis* leading OECD economies has remained essentially unchanged, and reflects lower productivity and especially weaker labour utilisation. In most EU countries, unemployment rates have remained at unacceptably high levels.
- Essential reforms are being implemented to close regulatory and oversight gaps in the banking system. Progress has been made in the area of Community policies to improve market integration, including by adopting directives to reduce hurdles for labour mobility and to streamline public procurement procedures.
- Strengthening the Single Market should be at the centre of actions to raise productivity, including increasing integration in network industries and in the services sector. Creating a more innovation friendly environment would support productivity growth. Reducing and reforming support for agriculture would boost efficiency. Removing policy barriers to labour mobility would help to tackle unemployment.
- In addition to improving efficiency, better targeting and rebalancing agricultural support could help meet environmental objectives.

Growth performance indicators

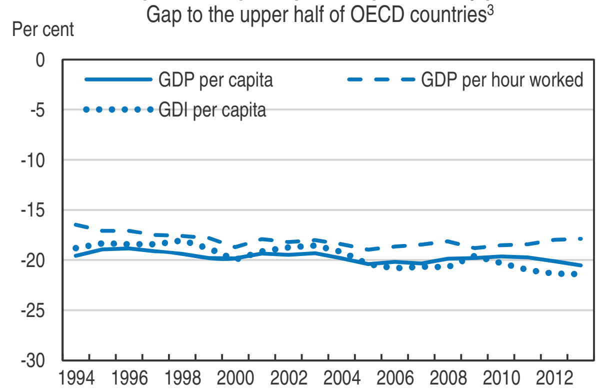
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.3	0.5
Potential labour utilisation		0.3	-0.1
of which:	Labour force participation rate	0.2	0.1
	Employment rate[1]	0.1	-0.1
	Trend employment coefficient[2]	-0.1	-0.1
Potential labour productivity		1.0	0.6
of which:	Capital deepening	0.4	0.3
	Labour efficiency	0.2	-0.1
	Human capital	0.5	0.4

B. Gaps in GDP per capita and productivity persist

Gap to the upper half of OECD countries[3]



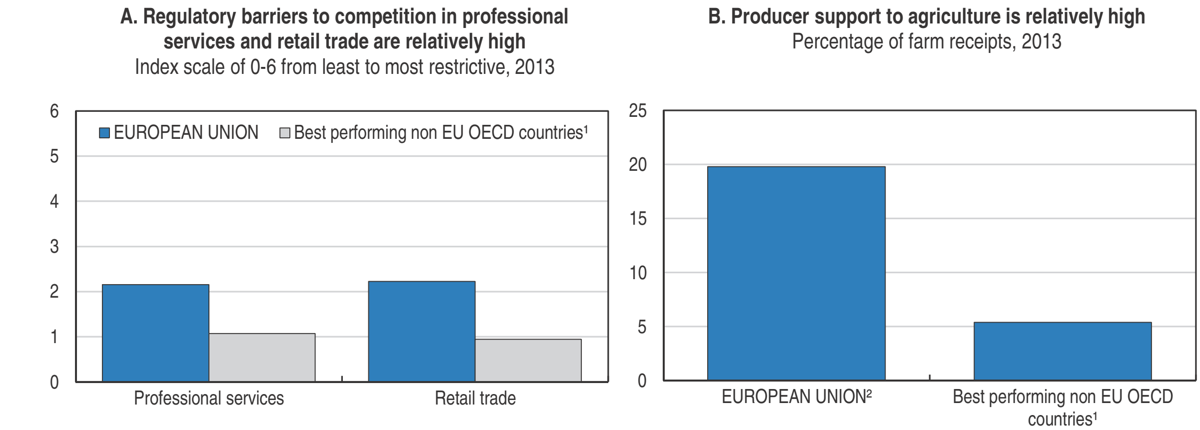
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933178029

EUROPEAN UNION

Policy indicators



1. The six non-EU OECD countries with the lowest barriers to entry in professional services and retail trade in Panel A and with the lowest producer support to agriculture in Panel B.
2. For this measure, EU refers to all 27 members of the European Union.

Source: Panel A: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*. Panel B: OECD, *Producer and Consumer Support Estimates Database*.

StatLink http://dx.doi.org/10.1787/888933178459

Going for Growth 2015 priorities

Priorities supported by indicators

Enhance support for innovation.[1] Higher innovation dynamics can reinforce productivity growth, which has been disappointing in the past.

Recommendations: Implement the EU Horizon 2020 framework programme for research and innovation to simplify procedures and strengthen the links between research institutions and businesses. Reinforce initiatives that reduce administrative burdens for enterprises. Identify and support best bankruptcy practices, such as laws that do not overly penalise failure. Strengthen co-operation in favour of lifelong learning and high-quality education and training.

Increase competition in the services sector. Restrictive regulations hinder cross-border competition and efficiency gains.

Actions taken: The public procurement legislative package, designed to streamline procurement tendering procedures, was adopted in 2014.

Recommendations: Improve the implementation of the Services Directive, in particular by eliminating unjustified and disproportionate restrictions to the cross-border provision of services and to the establishment of businesses. Improve legal and practical implementation of Single Market commitments. Build a regulatory framework for the digital economy by establishing technical and legal security and privacy standards.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

EUROPEAN UNION

Reduce producer support to agriculture. Markets for some agricultural products are distorted by price support and barriers to market access.

Actions taken: The agreement on the Common Agricultural Policy reached in 2013 provides for better targeting of funds to active farmers and phasing out of production volumes.

Recommendations: Reduce agricultural subsidies and move further away from unconditional income support and market measures. Create a stronger link with environmental and productivity objectives. Reduce bio-fuel subsidies. Reduce barriers to market access for non-EU countries.

Other key priorities

Increase competition in network industries. Network industries are still fragmented across borders and barriers to entry remain, hampering competition and thereby productivity.

Actions taken: In 2013, the EU Commission proposed the Fourth Railway Package, which aims to open domestic passenger railways to new entrants and services. The Commission also set out proposals to ease customs formalities for shipping. In 2014, the European Parliament voted legislation to move further towards a Single Telecoms Market.

Recommendations: Ensure effective implementation of policies to increase competition in transport, postal, telecommunications and energy markets. Strengthen co-operation between national regulators with a view to moving towards cross-border regulators. Further develop energy interconnections and encourage full ownership unbundling of generation, supply and network activities in the electricity and gas sectors.

Remove barriers to labour mobility within the European Union. Labour mobility in the European Union is still restrained by regulation, contributing to high unemployment while hampering the allocation of resources to where they are most productive.

Actions taken: In 2014 a directive on the free movement of labour was adopted that aims to reduce difficulties faced by mobile citizens to get information and assistance in EU host countries and another one on the acquisition and preservation of supplementary pension rights.

Recommendations: Move forward with the adoption of all remaining directives on free movement of workers. Take measures to eliminate double taxation of pensions, develop automatic qualification recognition, and eliminate disproportionate national barriers related to regulated professions. Open up public sector employment to all citizens.

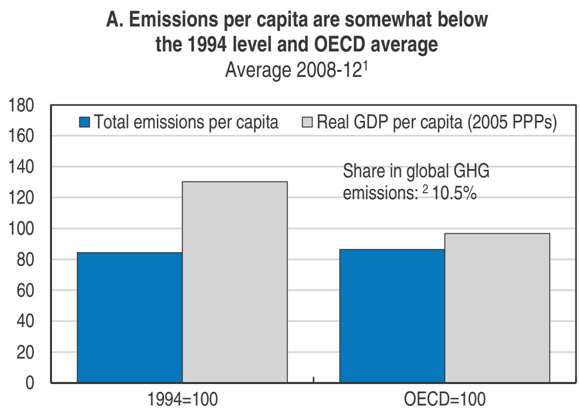
Reform areas no longer considered a priority in *Going for Growth*

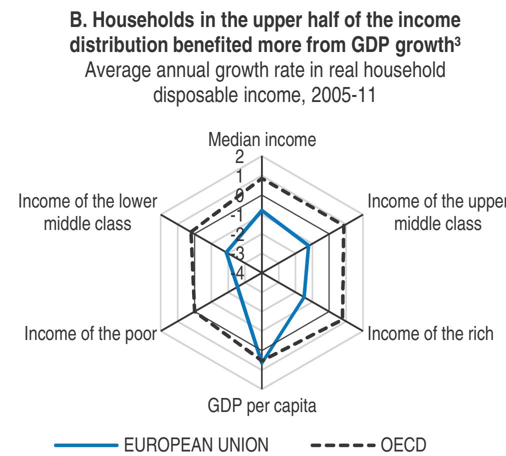
Reform regulation to create a more stable and integrated financial system. In order to ensure a stable and integrated financial system, it was recommended to implement reforms to address regulatory and oversight gaps in the single market.

Actions taken: Essential reform initiatives have been taken, and their implementation is under way. This concerns mainly the establishment of single supervisory and resolution mechanisms in banking, including single rule books and a common resolution funds. A comprehensive assessment of banks' balance sheets is ongoing, and equity capital requirements are being tightened. The main task is now to make the new regulatory framework operational.

EUROPEAN UNION

Beyond GDP per capita: Other policy objectives





1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178885

FINLAND

- The GDP per capita gap relative to leading OECD economies has widened since 2007 as productivity and hours worked have fallen. The continued deterioration in the terms of trade further weighs on GDI per capita.
- The government has been promoting an ambitious structural reform package, aiming at consolidating municipal finances, raising the efficiency of public services, extending working careers, lowering structural unemployment and lifting potential output. These reforms are going in the right direction, but full implementation will require several years and sustained government commitment.
- A rapidly ageing population calls for enhancing work incentives and the efficiency of public services. Stronger competition in retail trade and transports could contribute to boosting productivity.
- Further improving the efficiency of the tax structure and strengthening active labour market policies would support more inclusive growth.

Growth performance indicators

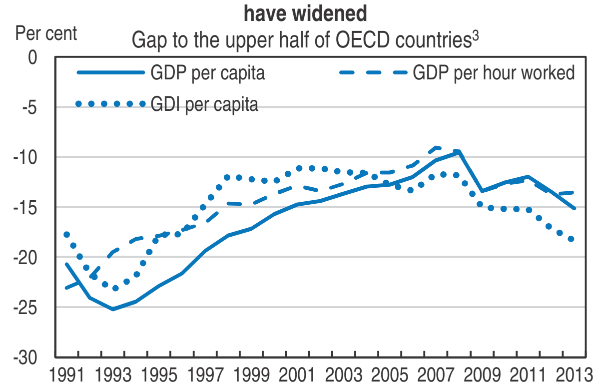
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.4	-0.2
Potential labour utilisation		0.5	-0.2
of which:	Labour force participation rate	-0.1	-0.3
	Employment rate[1]	0.3	0.0
	Trend employment coefficient[2]	0.2	0.2
Potential labour productivity		0.9	0.0
of which:	Capital deepening	-0.2	0.4
	Labour efficiency	0.6	-0.8
	Human capital	0.5	0.4

B. Gaps in GDP per capita and productivity have widened

Gap to the upper half of OECD countries[3]



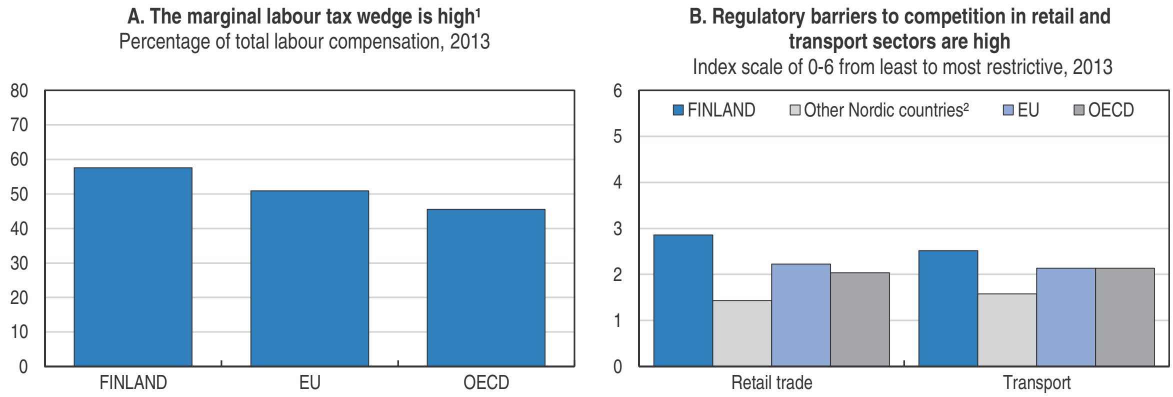
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177764

FINLAND

Policy indicators



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Marginal labour tax wedge for a single person at 100% of average earnings without child.
2. Average of Denmark, Norway and Sweden.

Source: Panel A: OECD, *Taxing Wages Database*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178198

Going for Growth 2015 priorities

Priorities supported by indicators

Enhance competition in retail trade and transport. Relatively high regulatory barriers in retail trade and limited competition in rail, road and air transport hamper productivity growth.

Actions taken: The resources of the competition authority have been increased in 2013 to ensure that it can fulfil its mandate. A review of the current Land use and building act has been carried out.

Recommendations: Loosen zoning and planning restrictions on retail development to encourage competition and increase store-level scale economies. Ease road transport regulation and reduce state ownership in rail and air transport.

Strengthen activation and reform unemployment benefits. High income replacement rates for the unemployed combined with insufficient activation measures to promote the return to work are holding back employment.

Actions taken: The youth guarantee was put in place in 2013, whereby those below 25 and recent graduates under the age of 30 are offered a job or a study place, a work trial or workshop place within three months of registering as unemployed. From 2014, people unemployed for three months are being offered jobs beyond their initial profession and sanctions for refusing activation measures should be applied more consistently. From 2014, unemployed jobseekers may earn EUR 300 per month without losing unemployment benefits. Over 2013 and 2014, resources to accelerate return to work have been expanded in the area of: i) vocational education and training (VET); and ii) employment services targeted at requalifying the long-term unemployed. No action has been taken on income replacement rates.

Recommendations: Continue to strengthen activation by tightening work-search requirements and taper off unemployment benefit replacement rates throughout the unemployment spell.

Reduce the labour tax wedge and improve the efficiency of the tax structure. Marginal tax wedges on labour income remain high, limiting employment growth.

Actions taken: VAT rates were increased by one percentage point at the beginning of 2013. Excise duties were also raised. In 2014, property assessment has come closer to market values.

Recommendations: Lower taxes on labour to improve work incentives. Offset the revenue loss with property and indirect taxes. Raise the revenue efficiency of the VAT by eliminating reduced rates.

Other key priorities

Increase productivity in municipalities. Declining productivity levels weigh on public finances, especially as population ageing increases demand for public services.

Actions taken: The government has pushed reform of municipalities through voluntary mergers, but it is facing strong resistance.

Recommendations: Continue to promote the merger of municipalities or scale back their responsibilities according to where economies of scale and scope can be achieved. Further develop benchmarking to enhance municipal-level productivity. Implement the health and social services reform as planned.

Improve incentives to work at older ages and continue to reduce early retirement through disability. The effective retirement age is still low by Nordic standards, shrinking the labour force.

Actions taken: The social partners have moved forward on reforming the earnings-related pension system. The reform is planned to be effective as of 2017. Changes include a progressive increase in the statutory retirement age, from currently 63 to 65 years in 2025 and, thereafter in relation to life expectancy. According to estimates, the planned reform would raise the effective retirement age to 62.4 years by 2025. In the next step, the government prepares new legislation for parliamentary approval.

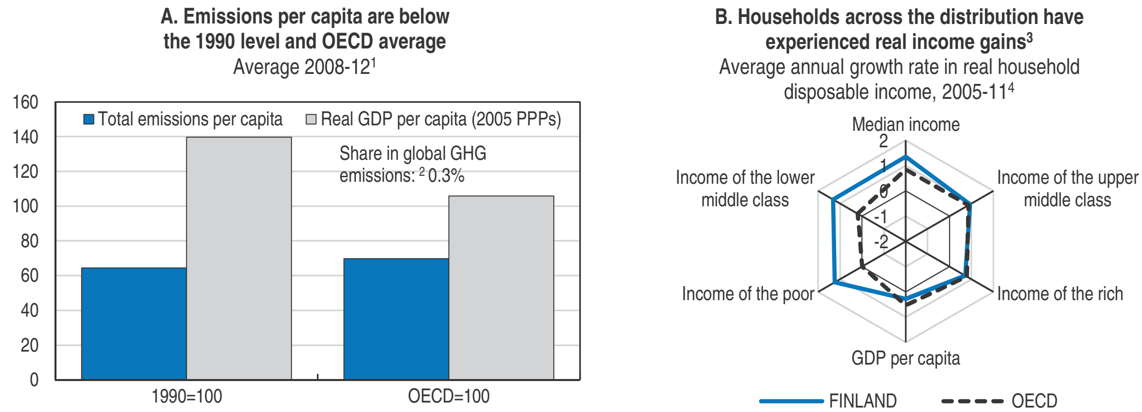
Recommendations: Fully implement the earnings-related pension system reform. Access to disability pensions should be based on medical reasons only. Continue to promote lifelong training to help people stay in work longer.

Reform areas no longer considered a priority in *Going for Growth*

For Finland, all priority areas from the 2013 issue of *Going for Growth* are maintained.

FINLAND

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-12 for Finland.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178626

FRANCE

- The gap in GDP per capita relative to the leading OECD countries remains sizeable, reflecting low employment rates of young and older people as well as low hours worked.
- The tax burden on labour has been significantly reduced through a tax credit and a reduction of social contributions in 2013-14, and further social contributions cuts are targeted at low and medium wages. In the area of professional training, additional funds have been earmarked to low-skilled and unemployed workers.
- Allowing for more flexible open-ended contracts and enhancing active labour market policies is needed to tackle labour market duality and improve job reallocations. Shifting the financing of some spending items from social contributions to other tax bases, simplifying the tax system and eliminating tax loopholes would promote employment and competitiveness. Reducing educational inequalities and improving skills throughout the working life would also increase employment and labour productivity.
- Further efforts to provide individualised support for pupils with difficulties, a simplification of the professional training system and improved guidance and support for low-skilled workers and the unemployed would enhance productivity, employment and equity.

Growth performance indicators

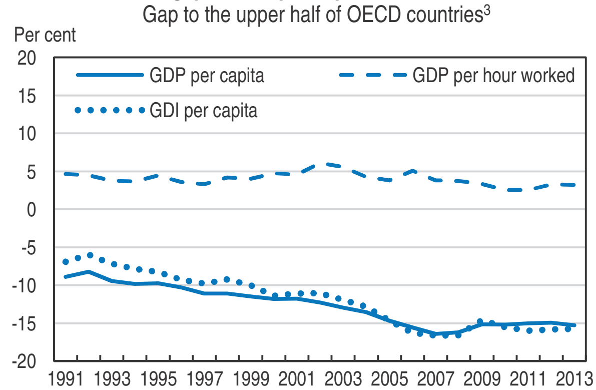
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		0.8	0.4
Potential labour utilisation		-0.1	-0.4
of which:	Labour force participation rate	0.0	-0.1
	Employment rate[1]	0.0	-0.2
	Trend employment coefficient[2]	-0.1	-0.1
Potential labour productivity		0.9	0.8
of which:	Capital deepening	0.3	0.2
	Labour efficiency	-0.1	-0.2
	Human capital	0.7	0.7

B. The gap in GDP per capita remains sizeable

Gap to the upper half of OECD countries[3]



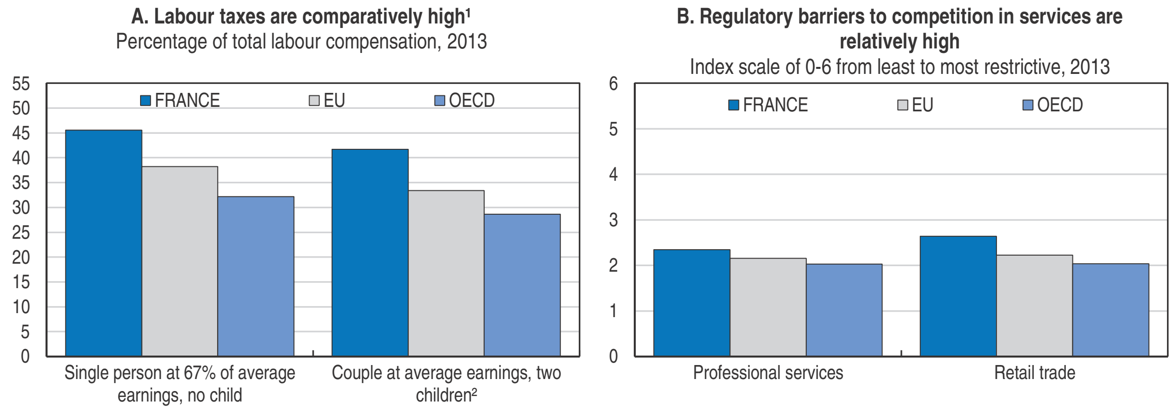
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177776

FRANCE

Policy indicators



1. The data do not include recent legislated changes and may therefore overestimate the current level of labour tax wedges. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
2. At 100% of average earnings for the first earner and average of the three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).

Source: Panel A: OECD, *Taxing wages Database*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178206

Going for Growth 2015 priorities

Priorities supported by indicators

Reform job protection and strengthen active labour market policies (ALMPs). Labour market duality hinders growth in high-quality jobs and productivity.

Actions taken: A simplification of part-time unemployment schemes was introduced in 2013. In 2014, the time span between a job loss and unemployment benefit payment has been increased for laid-off workers who receive large severance pay packages.

Recommendations: Make open-ended contracts more flexible (extend the trial period, broaden the definition of economic redundancy and shorten layoffs and judicial procedures). Make sure that every jobseeker receives an employment or training offer within a few months, evaluate and streamline ALMPs, and apply sanctions in case of a jobseeker's refusal of good offers.

Shift the tax burden away from labour and broaden the tax base. High social contributions combined with a relatively high minimum wage weigh on labour demand, supply and competitiveness.

Actions taken: The corporate tax credit introduced in 2013 is broadly equivalent to a reduction of labour taxation by 4% of the gross wage bill in 2013 and 6% from 2014 onwards (excluding salaries higher than 2.5 times the minimum wage). This has been financed by spending cuts and increases in VAT and environmental taxes. The Responsibility and Solidarity pact voted in 2014 foresees further reductions in social charges worth EUR 10 billion over 2015-17, equally distributed between low and medium wages.

Recommendations: Lower social security contributions further by shifting the financing of benefits that accrue to society at large, such as those for families, to less distortive taxes (e.g. environmental, real property and inheritance taxes). Eliminate tax loopholes, such as preferential tax treatment of certain investment income, and broaden the base of personal, capital and corporate income taxation.

Improve equity and outcomes in primary and secondary education. Overall education outcomes are close to the OECD average, but this masks stark inequalities, weighing on employment, productivity and equity.

Actions taken: The government is increasing education staff by 60 000 over 2012-15. It created more posts in early childhood education and is working to focus initial training for teachers more on pedagogical and practical skills. The extension of the school week from 4 to 4.5 days in 2013 and 2014 and pedagogical innovations allow for more individualised support for pupils.

Recommendations: Combat school failure at an early stage, limit grade repetition drastically, and develop individualised instruction. Improve teachers' training by focusing on knowledge transmission and creativity, and boost incentives to attract high-quality teachers in disadvantaged schools.

Other key priorities

Reduce barriers to competition. Poorly designed regulation restricts competition, hindering both productivity and employment.

Actions taken: The government launched an initiative to simplify regulation in 2013 and announced 50 additional measures for enterprises in 2014, notably to limit the burden of new regulations and ease fiscal procedures. However, the integration of the rail network manager (RFF) with the national railway company's infrastructure branch may hamper future network access for alternative rail operators.

Recommendations: Ease those regulations of professional services that go beyond the necessary consumer protection. Facilitate price competition in retail sales and the setting up of new stores. Remove entry barriers in potentially competitive segments of network industries.

Improve the quality of higher education and access to lifelong learning. Universities are poorly funded compared to elite schools and short vocational programmes. They provide poor job prospects in some areas. People with low skills benefit little from professional training, and quality control is weak.

Actions taken: A 2013 law on higher education aims to double the number of students combining work and study by 2020. The 2014 reform of professional training directs more money at low-skilled workers and the unemployed. It creates a personal training account and aims to strengthen orientation services.

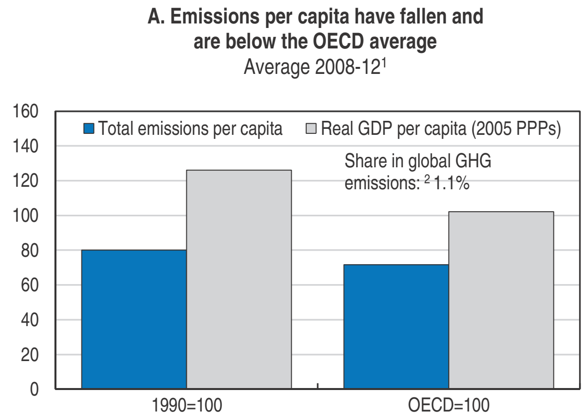
Recommendations: Allow universities to raise tuition fees and provide student loans with income-contingent repayment. Strengthen quality control for professional training and simplify the training system. Enhance training opportunities for the low-skilled and make sure that they receive effective guidance to choose the right programme.

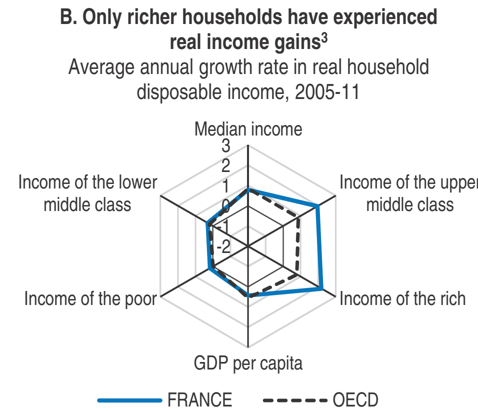
Reform areas no longer considered a priority in *Going for Growth*

For France, all priority areas from the 2013 issue of *Going for Growth* are maintained.

FRANCE

Beyond GDP per capita: Other policy objectives





1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178633

GERMANY

- The GDP per capita gap has continued to narrow relative to the upper half of the OECD. Labour utilisation has improved on account of rising labour market participation among older workers and women as well as immigration. However hours worked remain low, reflecting the low incidence of full-time female employment.
- Access to tertiary education has improved and tertiary graduation rates have risen as several *Länder* have reduced or postponed tracking in the school system. Despite some improvement, education outcomes remain closely linked to socio-economic background. Availability of formal childcare places has improved, reducing barriers to female participation. Little has been achieved to reduce regulatory barriers to competition in services and to lower labour taxation.
- Removing policy-induced disincentives for women to take-up full-time jobs and reducing the labour tax wedge would raise overall employment and hours worked. Reducing educational inequalities and the gap in job protection between regular and non-regular workers would encourage human capital accumulation and raise workers' employability. Removing barriers to competition in services would boost productivity growth.
- Shifting the tax system from labour towards environmental taxes would improve the pricing of negative environmental externalities. Reforms to encourage full-time labour force participation of women, to reduce gaps in employment protection and improve equality in education outcomes would make growth more inclusive.

Growth performance indicators

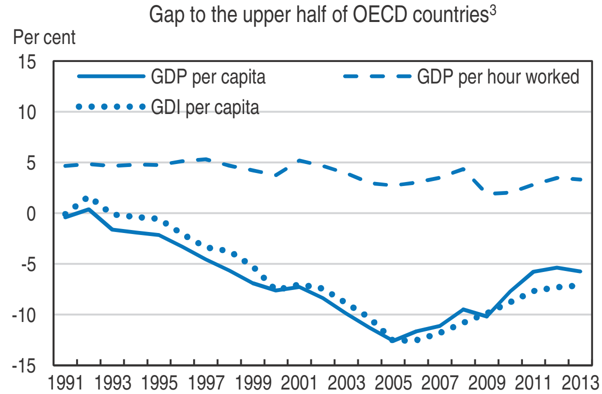
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.1	1.2
Potential labour utilisation		0.4	0.6
of which:	Labour force participation rate	0.4	0.4
	Employment rate[1]	0.2	0.4
	Trend employment coefficient[2]	-0.2	-0.2
Potential labour productivity		0.7	0.7
of which:	Capital deepening	-0.2	-0.3
	Labour efficiency	0.9	0.9
	Human capital	0.1	0.0

B. The GDP per capita gap has remained stable

Gap to the upper half of OECD countries[3]



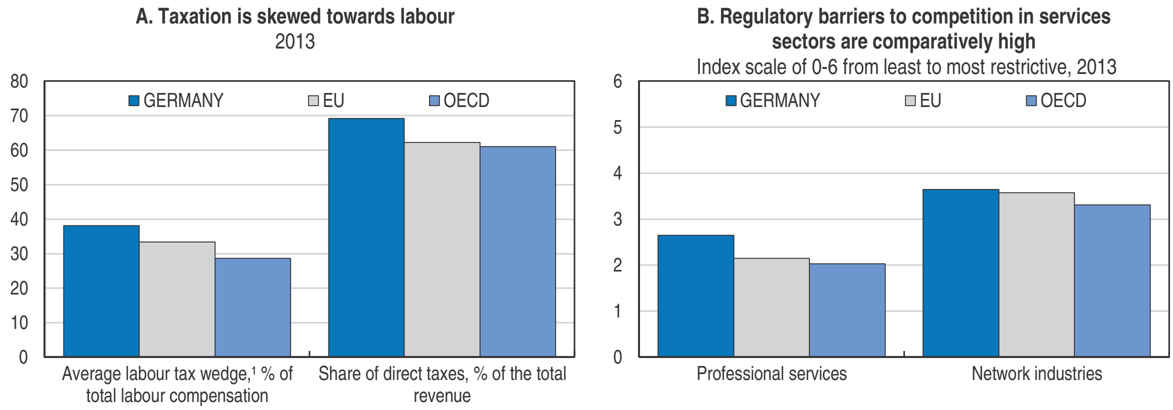
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177781

GERMANY

Policy indicators



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Couple with two children, at 100% of average earnings for the first earner and average of the three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).

Source: Panel A: OECD, *Revenue Statistics and Taxing wages Databases*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178213

Going for Growth 2015 priorities

Priorities supported by indicators

Reduce tax wedges on labour income and shift taxation towards less distortive taxes. Labour tax wedges remain high, especially for workers on low pay, and taxation is skewed towards labour income.

Actions taken: Social security contributions were lowered by 0.6 percentage points in 2013. However, more generous pension entitlements introduced in 2014 are expected to raise contributions by 0.4 percentage points by 2030. The basic income tax allowance was raised somewhat in 2013.

Recommendations: Lower social security contributions especially for low-pay workers. Update property tax valuations and extend capital gains taxes on residential real estate. Phase out tax expenditures for activities that damage the environment. Phase out reduced energy rates and eliminate reduced VAT tax rates, such as on hotel services.

Reduce gaps in employment protection. The large gap in the protection of regular workers and non-regular workers hampers upward wage mobility and reduces access to training as well as to high-quality jobs for non-regular workers.

Actions taken: Temporary agency workers must be paid the same wage as regular workers on similar jobs after 9 months.

Recommendations: Reduce the gap in employment protection between permanent and temporary workers for example by limiting the use of multiple successive fixed-term contracts with the same employee.

GERMANY

Reduce regulatory barriers to competition, especially in services sectors. Barriers to competition in services limit productivity growth.

Actions taken: The government is unifying points of contact with the public administration ("one stop shops"). Germany has de-regulated long-distance bus services as of January 2013.

Recommendations: In telecommunications, liberalise the issuance of SIM cards. In railway transport, facilitate access of market entrants to rolling stock and strengthen the regulator. Privatise government stakes in the telecommunications and postal services incumbents. Abolish price regulation, for example, for architects and engineers, and reduce exclusive rights. Examine if entry conditions to crafts could be further liberalised.

Other key priorities

Enhance equity in education. The link between socio-economic background and education outcomes is relatively strong and youth dropping out early from the education system have poor lifetime job prospects.

Actions taken: Some progress has been made in reducing early dropping out. Some *Länder* have reduced early tracking in compulsory schooling. A programme is being set up to improve the transition from school to mainstream vocational education. An initiative is ongoing to integrate pupils with special needs into mainstream schools.

Recommendations: Continue reducing early tracking. Reduce the assignment of pupils to special needs schools. Provide more financial resources to schools with a comparatively high share of pupils with weak socio-economic background. Improve the transition to mainstream vocational education for youth at risk of dropping out. Reduce grade repetition. Give consideration to raising the maximum amount of means-tested student support. Develop tuition fees in combination with student loans with income contingent repayments.

Remove obstacles to full-time female labour participation. The labour force participation of women is high, but the average working hours of mothers and married women are significantly below the OECD average.

Actions taken: The number of childcare places was increased and a legal claim for parents on public care for children aged one year or more was introduced in 2013. Some *Länder* have established training courses for early childhood educators. The government has widened the scope to combine part-time work with parental leave benefits from 2015 onwards. Backward action took place in 2013: the introduction of a cash-for-care subsidy for parents who decide not to use childcare facilities has been reducing incentives to work.

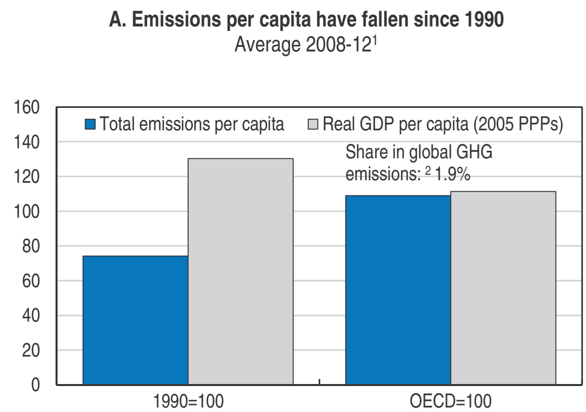
Recommendations: Continue expanding the supply of full-day childcare. Improve the quality of early childhood education and care by raising the staff-to-children ratio in accredited facilities, by further raising professionals' qualifications and by better integrating education and care. Abolish the cash-for-care subsidy. Reform the system of joint taxation and give consideration to removing free health insurance for non-working spouses, while ensuring that low-income households are compensated.

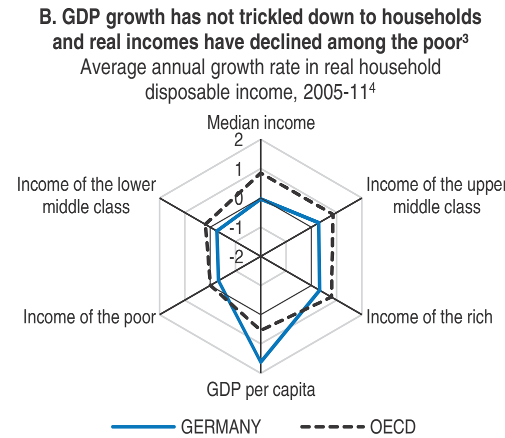
Reform areas no longer considered a priority in *Going for Growth*

For Germany, all priority areas from the 2013 issue of *Going for Growth* are maintained.

GERMANY

Beyond GDP per capita: Other policy objectives





1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2004-11 for Germany.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178648

GREECE

- After narrowing steadily until 2008, the gap in GDP per capita relative to best performing OECD countries has since steadily widened as labour productivity and labour utilisation have sharply declined.
- Recent initiatives to modernise the Public Employment Service (PES) are welcome steps to address persistently high unemployment. The sizeable social impact of the crisis will be further alleviated by the introduction of a minimum income scheme. Recent reforms to simplify business licensing procedures and red tape for exports, as well as to raise efficiency in public administration and tax collection, should boost competitiveness.
- Priority should be given to ensuring that the multiple reforms introduced in the recession and recovery context are being fully implemented. Further reforms are also needed, notwithstanding the progress achieved. Improvements in active labour market policies and the social safety net are needed to address the labour market and social consequences of the crisis. More needs to be done in the area of product markets to unleash growth potential via, e.g. a more efficient allocation of resources. Reforms to raise the efficiency of taxation and of public administration are also important for productivity and would help fiscal consolidation.
- Well-targeted active labour market policies and timely implementation of welfare reforms along with improvements in education should help to reduce income inequality and poverty risk.

Growth performance indicators

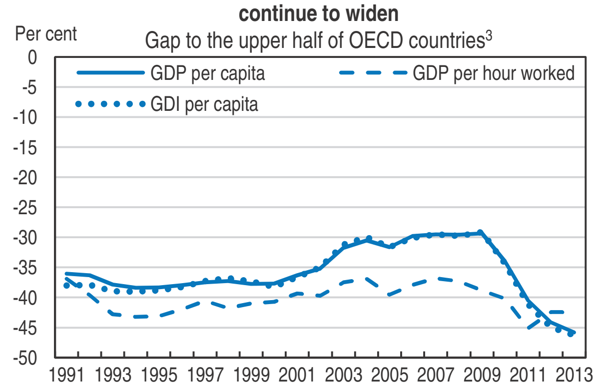
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.3	-1.3
Potential labour utilisation		0.7	-0.2
of which:	Labour force participation rate	0.6	0.2
	Employment rate[1]	-0.3	-1.0
	Trend employment coefficient[2]	0.4	0.6
Potential labour productivity		0.6	-1.1
of which:	Capital deepening	0.7	1.1
	Labour efficiency	-0.9	-2.9
	Human capital	0.9	0.7

B. Gaps in GDP per capita and productivity continue to widen

Gap to the upper half of OECD countries[3]



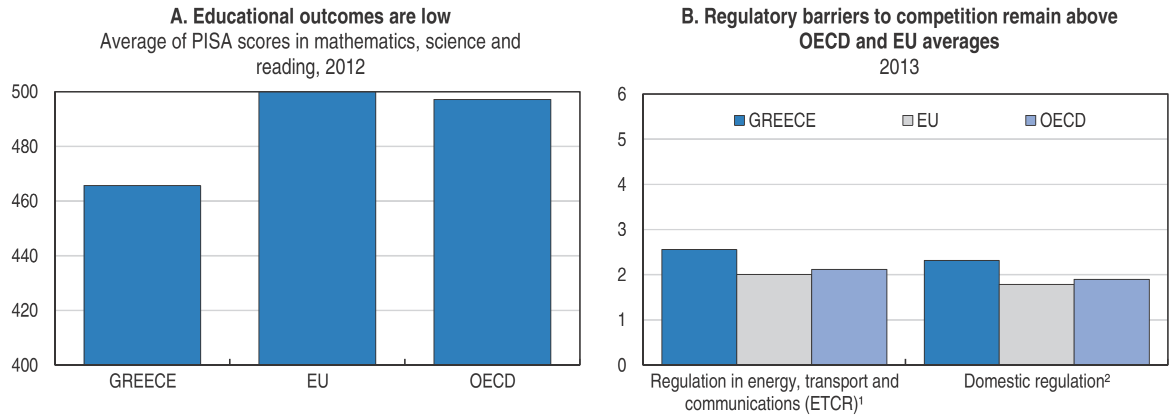
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177799

GREECE

Policy indicators



1. Seven indicators of regulation in network sectors are aggregated into one indicator of regulation in energy, transport and communications (ETCR) and cover telecoms, electricity, gas, post, rail, air passenger transport and road freight.
2. Average of the product market regulation subcomponents: public ownership, involvement in business operations under "State control" and regulatory protection of incumbents under "barriers to entrepreneurship". For further details see Koske, I., I. Wanner, R. Bitetti and O. Barbiero (2015), "The 2013 update of the OECD product market regulation indicators: Policy insights for OECD and non-OECD countries", *OECD Economics Department Working Papers*, forthcoming.

Source: Panel A: OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178222

Going for Growth 2015 priorities

Priorities supported by indicators

Enhance the efficiency of active labour market policies and of the social safety net. Well-targeted labour market policies and timely implementation of welfare reforms are essential to reduce long-term unemployment.

Actions taken: The modernisation of the Public Employment Services (PES) is underway, aiming at a new operational model with greater focus on individual needs and programme monitoring. A 2013 law upgrades vocational education and apprenticeships. A pilot minimum income scheme was enacted in 2014.

Recommendations: Strengthen activation programmes and their evaluation. Proceed swiftly with the restructuring of PES. Ensure the timely implementation of the pilot minimum-income scheme and, drawing lessons from this pilot, introduce a full-scale minimum-income scheme.

Reduce regulatory barriers to competition. Remaining administrative burdens to business operation and weak competition hinder productivity and investment.

Actions taken: Reforms in customs procedures under the 2013-15 National Strategy for Trade Facilitation have reduced red tape for exports. A framework law has been approved in 2014 with a view to overhauling licensing procedures for business setup and investment. More recently, a law was passed to promote competition in four key sectors, including tourism and retail trade. Many regulated professions have been opened up, for example in the areas of law, accounting and engineering. As of 2013, Sunday shopping has been allowed up to seven times per year. The liberalisation and reform of the electricity and gas markets are underway, including ownership unbundling of the electricity transmission company and privatisation measures. Privatisation is also being pursued in other industries (e.g. ports, regional airports and railways).

Recommendations: Pursue efforts to simplify licencing procedures and reduce remaining administrative burdens for exports. Monitor closely the implementation of the law that opens up closed professions and its impacts on competition. Proceed swiftly with the privatisation programme.

Improve the quality and efficiency of the education system. Inefficiencies in the education system impact adversely on secondary and tertiary outcomes, hence on human capital accumulation and productivity.

Actions taken: In secondary education, curricula have been made more flexible and an evaluation policy of schools and teachers is underway. In higher education, a first wave of institutional consolidation has been completed – to reduce duplication – and an external evaluation system is under preparation.

Recommendations: Proceed swiftly with the evaluation of educational institutions and teachers. Make schools more autonomous and accountable. Implement fully the provisions of the 2012 laws on higher education, including the introduction of performance-based funding for universities. Complete as scheduled the external evaluation process of higher institutions.

Other key priorities

Enhance the efficiency of public administration. An efficient public administration is essential for high-quality public services and the rapid implementation of growth-enhancing structural reforms.

Actions taken: A "mobility scheme" was developed in 2013 to address chronic staffing allocation problems in the public sector. A new system for recruiting managers is currently being legislated, while steps were also taken to improve the current evaluation system of civil servants. The reorganisation of ministries and public entities is underway.

Recommendations: Proceed swiftly with establishing an evaluation system of staff performance based on clear individual objectives. Enhance further the development of e-government.

Enhance the efficiency of the tax system. Tax evasion is widespread, hampering an effective revenue collection and raising social concerns about an unfairly distributed of tax burden.

Actions taken: Reforms in 2013-14 simplified the tax system and broadened its base, including by removing several deductions and credits of the personal income tax, reducing the number of tax brackets and unifying multiple property taxes. Measures were introduced in 2013 to enhance the efficiency of tax inspection and tax debt collection, including by transferring responsibility of collection of social security contributions to a single entity. The autonomy of the tax administration was also increased.

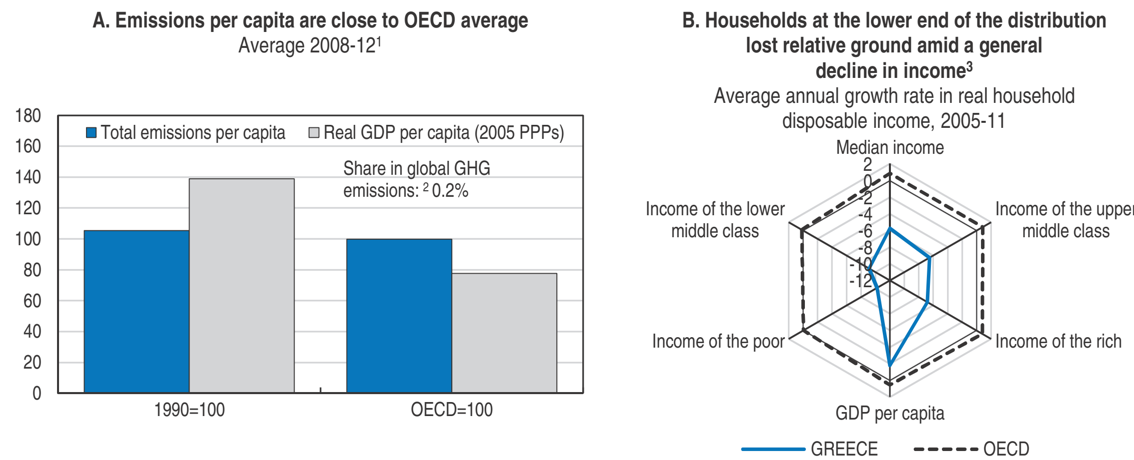
GREECE

Recommendations: Enhance the efficiency of tax collection. Improve the effectiveness of audits through better cross-checking procedures. Speed up court proceedings in order to strengthen enforcement.

Reform areas no longer considered a priority in *Going for Growth*

For Greece, all priority areas from the 2013 issue of *Going for Growth* are maintained.

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178654

HUNGARY

- The large gap in GDP per capita relative to the upper half of OECD countries, essentially due to lower productivity, has remained broadly unchanged in the past decade. Overall labour utilisation is comparable to the most prosperous OECD countries, as above-average hours per worker offset a low participation rate.
- Some progress has been made in reducing the labour tax wedge, promoting administrative simplification and improving education outcomes, though further efforts are needed in these areas. Past legislation to increase the effective retirement age is now coming into effect. However, measures in product market regulation have often been anti-competitive.
- Further reducing the labour tax wedge on low salaries and promoting continued work at older ages would increase employment. Higher investment and productivity growth would follow from reforms to increase competition in non-tradable sectors and reduce administrative burdens. Improving outcomes and equity in education would tackle labour mismatches and thus foster both employment and productivity growth.
- Making the education system more efficient and equitable would contribute to lower income inequality by easing upward social mobility from one generation to the next. Reducing the tax wedge on low-wage workers would also reduce income inequality by promoting low-skilled job creation.

Growth performance indicators

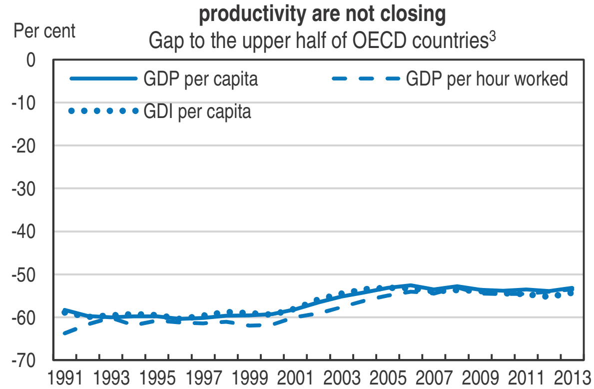
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		2.1	0.3
Potential labour utilisation		-0.3	0.0
of which:	Labour force participation rate	0.5	0.7
	Employment rate[1]	-0.4	-0.3
	Trend employment coefficient[2]	-0.3	-0.4
Potential labour productivity		2.3	0.3
of which:	Capital deepening	1.0	1.1
	Labour efficiency	0.8	-1.1
	Human capital	0.5	0.4

B. The large gaps in GDP per capita and productivity are not closing

Gap to the upper half of OECD countries[3]



1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

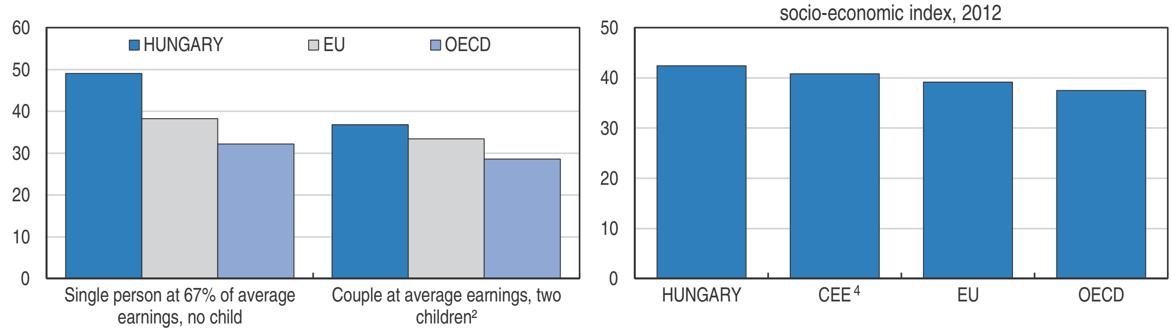
StatLink http://dx.doi.org/10.1787/888933177801

HUNGARY

Policy indicators

A. The labour tax wedge is high[1]
Percentage of total labour compensation, 2013

B. Student performance is heavily influenced by family background[3]
Strength of the link between the reading score and the socio-economic index, 2012



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
2. At 100% of average earnings for the first earner and average of the three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).
3. Defined as the estimated coefficient from the country specific regression of PISA reading performance on corresponding index of economic, social and cultural status (ESCS).
4. Central and Eastern European Countries is the average of the Czech Republic, Hungary, Poland and Slovenia.

Source: Panel A: OECD, *Taxing Wages Database*. Panel B: OECD (2013), *PISA 2012 Results: Excellence through Equity (Volume II): Giving Every Student the Chance to Succeed*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201132-en*.

StatLink http://dx.doi.org/10.1787/888933178232

Going for Growth 2015 priorities

Priorities supported by indicators

Reduce the tax wedge on labour income. The average tax wedge is internationally high, especially for low salaries, which weakens work incentives and labour demand.

Actions taken: In 2013, the authorities reduced employer social contributions for some vulnerable groups, such as young, old or unskilled workers (Job Protection Act). The 2014 Budget increased family benefits, especially by extending deductibility of the family tax allowance to employee social contributions, a step which favours low-income earners the most.

Recommendations: Further reduce the tax wedge on low salaries through better targeting of cuts in social contributions and the introduction of an employment tax credit that progressively declines with the wage level. Finance these measures by increasing the least distortive property taxes and taxation on energy use.

Reduce disincentives to continued work at older ages. Still low statutory and effective retirement ages lead to meagre employment rates for older workers.

Actions taken: Following past legislation, the legal retirement age started to increase in 2014, to reach 65 by 2022, and special regimes for early retirement are being phased out in early 2015 (except for one still remaining special regime for women).

Recommendations: Index the statutory retirement age to gains in life expectancy and close pathways into early retirement for women.

Improve outcomes and equity in education. Low attainment at tertiary level, shortcomings in vocational education and training (VET) and social inequalities in education hamper job creation and productivity growth.

Actions taken: The authorities have been implementing several EU-financed programmes to support disadvantaged primary and secondary education students (2013-14). Requirements for tuition fees exemption in tertiary education are being progressively tightened (2013-15), which may reduce drop-out rates but risks restricting access by disadvantaged students.

Recommendations: Postpone student tracking into general and VET streams to enhance general skills and promote equity. Encourage social diversity in classrooms and target more resources to disadvantaged schools. In tertiary education, extend the tuition fees exemption to all disadvantaged students meeting admission criteria.

Other key priorities

Enhance competition in non-tradable sectors. Insufficient competition in retail, professional services, energy and telecommunications hampers productivity growth.

Actions taken: The telecommunications regulator launched a spectrum auction (2014), enabling a new mobile network operator to enter the market. However, the authorities restricted the scope of competition law as regards mergers (2013). Regulated energy prices have been cut by around a quarter in 2013-14, hampering investment and the development of liberalised markets. Operational constraints and heavier fees penalising foreign-owned retailers introduced in late 2014 are likely to distort competition in the sector.

Recommendations: Decrease barriers to entry in professional services, telecommunications (especially as regards mobile virtual network operators) and retail, where a level playing field should also be ensured. Move towards market-based pricing in electricity and gas. Do not restrict the scope of competition law and ensure vigorous antitrust enforcement.

Promote administrative simplification and transparency. Complex and opaque administrative procedures hamper cost-efficient delivery of public services and deter private sector investment and productivity growth.

Actions taken: The authorities have been implementing and expanding programmes of simplification and public administration reform, thus streamlining the existing stock of administrative burdens. However, a high flow of new regulation, such as successively amended special taxes, has resulted in new burdens. The parliament reformed its legislative process to potentially allow more in-depth debate of draft bills (2014).

Recommendations: To improve regulatory quality and stability, introduce mandatory consultation with experts and stakeholders for parliament-initiated legislation, and further develop regulatory impact assessment of government-initiated legislation, including environmental policy bills. Promote greater information sharing and database integration among government agencies. Increase transparency and competition in public procurement.

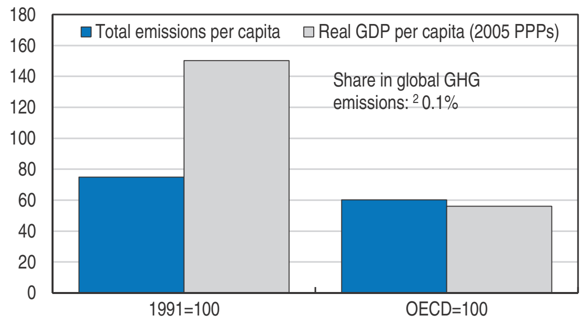
Reform areas no longer considered a priority in *Going for Growth*

For Hungary, all priority areas from the 2013 issue of *Going for Growth* are maintained.

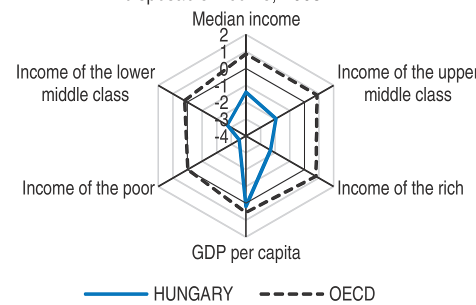
HUNGARY

Beyond GDP per capita: Other policy objectives

A. Emissions per capita are below the 1991 level and OECD average
Average 2008-12[1]



B. Households in the lower half of the distribution experienced lower real income losses than those in the upper half[3]
Average annual growth rate in real household disposable income, 2005-11[4]



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-12 for Hungary.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178660

ICELAND

- The income gap with the upper half of OECD countries widened following the crisis, largely driven by adverse developments in labour force participation and employment, though labour utilisation remains comparatively high. Labour productivity growth has slowed down markedly with deterioration in capital deepening.
- There has been no progress on the policy priorities identified in the 2013 issue of *Going for Growth*.
- Productivity growth would be enhanced by reducing barriers to competition stemming from distortive agricultural support and from restrictive product market regulation as well as by raising public sector efficiency. Improving education outcomes would foster human capital accumulation and thus boost productivity.
- Reducing producer support to agriculture would boost productivity and also lower food prices, which would benefit lower-income households. Improving equity and performance in education would, in addition to boosting productivity growth, also help reduce income inequality.

Growth performance indicators

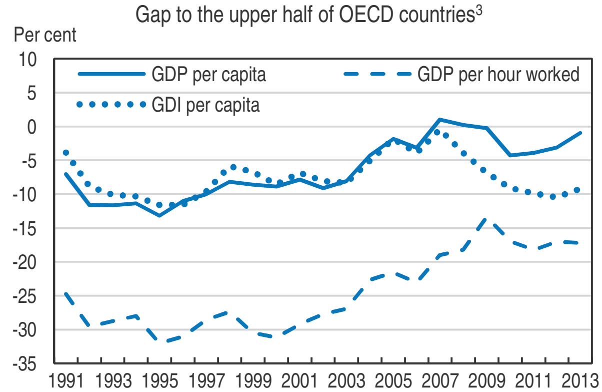
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		2.7	0.2
Potential labour utilisation		-0.1	-0.7
of which:	Labour force participation rate	-0.1	-0.6
	Employment rate[1]	-0.1	-0.1
	Trend employment coefficient[2]	0.0	0.0
Potential labour productivity		2.8	0.9
of which:	Capital deepening	1.1	-0.5
	Labour efficiency	1.0	0.8
	Human capital	0.7	0.7

B. The gap in GDP per capita has stopped widening

Gap to the upper half of OECD countries[3]



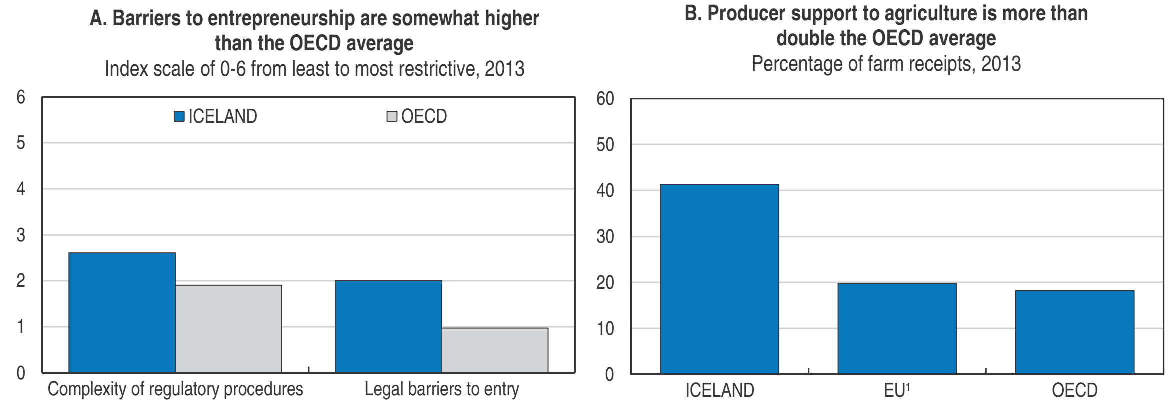
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177813

ICELAND

Policy indicators



1. For this measure, EU refers to all 27 members of the European Union.

Source: Panel A: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*. Panel B: OECD, *Producer and Consumer Support Estimates Database*.

StatLink http://dx.doi.org/10.1787/888933178245

Going for Growth 2015 priorities

Priorities supported by indicators

Reduce barriers to product market competition. Regulatory opacity and legal barriers to entry restrain competition, entrepreneurship and productivity growth.

Actions taken: No action taken.

Recommendations: Review and reduce the number of licences and permits required and use plain language in regulations. Reduce legal barriers to entry in the electricity, air transport, airport and sea port sectors. Remove capital controls which deter foreign investment.

Reduce producer support to agriculture. Agriculture producer support is high, burdening consumers and taxpayers and weighing on productivity growth.

Actions taken: No action taken.

Recommendations: Reduce agricultural support by lowering tariffs and excise duties, abolishing quotas on agricultural products, reducing other forms of producer support and delinking it from production.

Improve outcomes and equity in education. Below OECD average achievement in reading and science, high variance across students, and low efficiency of the education system reduce productivity.

Actions taken: No action taken.

Recommendations: Strengthen the capacity of municipalities to manage and oversee primary education collectively or shift these responsibilities back to the central government's education ministry. Strengthen school accountability for education outcomes. Adjust curricula to improve performance in reading and mathematics. Raise teacher quality in rural areas. Increase effective teaching time and student-teacher ratios.

Other key priorities

Lower ownership restrictions on domestic and foreign firms. Restrictions on domestic private and foreign ownership inhibit competition in the electricity and fisheries sectors, weakening investment and productivity growth.

Actions taken: No action taken.

Recommendations: Reduce ownership restrictions in the electricity and fisheries sectors. Divest the National Power Company's generation facilities to create a competitive marker in electricity generation.

Increase public sector efficiency. Inadequate performance information undermines programme management and productivity.

Actions taken: No action taken.

Recommendations: Introduce performance indicators to identify government programmes that are not meeting their objectives. Introduce corrective measures for programmes failing to deliver.

Reform areas no longer considered a priority in *Going for Growth*

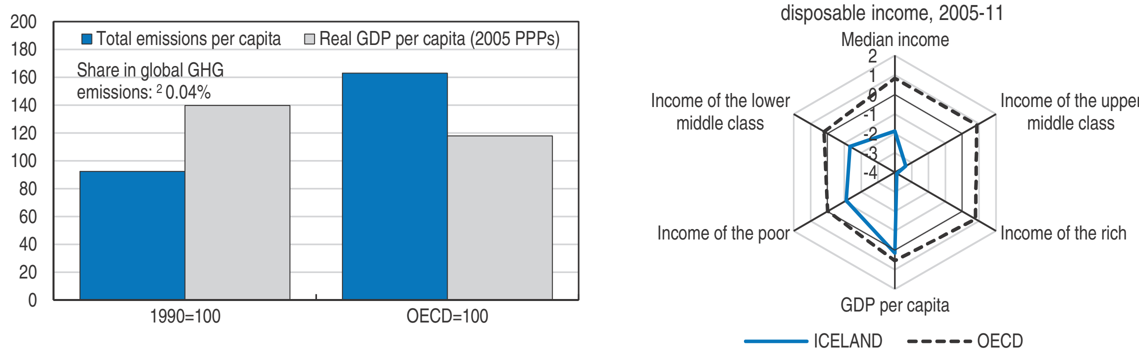
For Iceland, all priority areas from the 2013 issue of *Going for Growth* are maintained.

ICELAND

Beyond GDP per capita: Other policy objectives

A. Emissions per capita are around the 1990 level and above OECD average
Average 2008-12[1]

B. Both household real income and GDP per capita have fallen[3]
Average annual growth rate in real household disposable income, 2005-11



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178674

INDIA

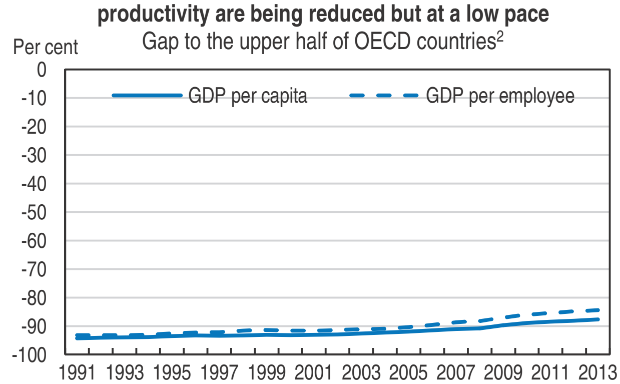
- The income gap *vis-à-vis* OECD countries has continued to narrow but remains large. It mainly stems from a productivity shortfall. Structural bottlenecks have increasingly weighed on the growth of economic activity.
- Foreign direct investment (FDI) barriers have been reduced in particular in telecom, civil aviation, railways, defence, construction and multi-brand retail. Financial reforms are gradually implemented and the Reserve Bank of India has taken steps to increase competition in the banking sector as well as its efficiency but more is needed to achieve a more efficient allocation of capital.
- Easing administrative and regulatory burden on companies and encouraging infrastructure development would promote economic activity. To spur the creation of formal jobs, reduce labour market duality and facilitate the participation of women, labour laws should be simplified and the rather stringent employment protection legislation should be reconsidered. Better education and training systems would raise the pool of qualified workers and enhance labour productivity.
- Modernising labour laws is crucial to encourage employment formalisation and to reduce labour market segmentation, gender bias and income inequality. Raising the quality of education and training systems would also promote the economy's ability to respond to new market opportunities and thus job creation, thereby reducing severe poverty and income inequality.

Growth performance indicators

A. Average annual growth rates
Per cent

	2003-08	2008-13
GDP per capita	6.5	5.6
Labour utilisation[1]	-0.3	-0.4
Labour productivity	6.8	6.1

B. Very large gaps in GDP per capita and productivity are being reduced but at a low pace
Gap to the upper half of OECD countries[2]



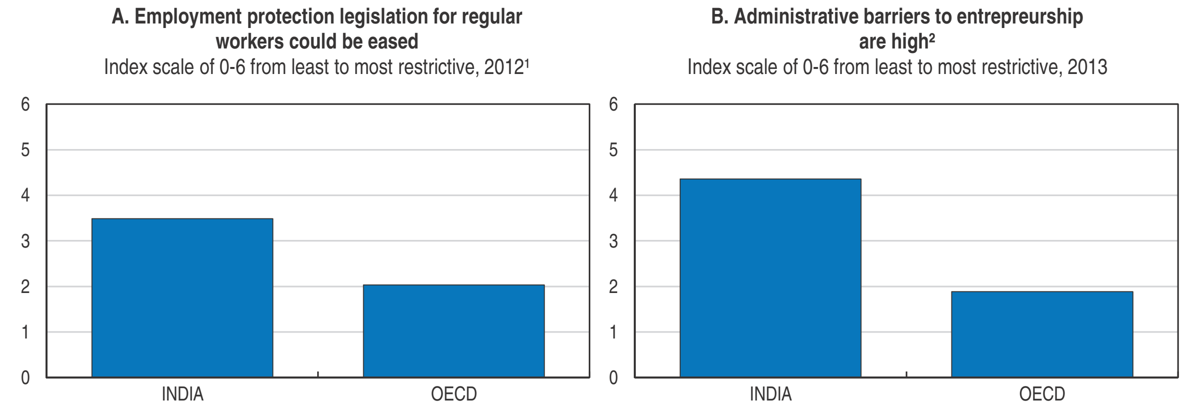
1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per employee (in constant 2005 PPPs).

Source: OECD, *National Accounts Database*; World Bank, *World Development Indicators (WDI) Database*; and National Sample Survey (various years), annual population estimates of the Registrar General and OECD estimates.

StatLink http://dx.doi.org/10.1787/888933178072

INDIA

Policy indicators



1. 2013 data for the OECD average.
2. Average of the product market regulation subcomponents: administrative burdens on start-ups and complexity of regulatory procedures under "barriers to entrepreneurship". For further details see Koske, I., I. Wanner, R. Bitetti and O. Barbiero (2015), "The 2013 update of the OECD product market regulation indicators: Policy insights for OECD and non-OECD countries", *OECD Economics Department Working Papers*, forthcoming.

Source: Panel A: OECD, *Employment Protection Database*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178501

Going for Growth 2015 priorities

Priorities supported by indicators

Reduce administrative and regulatory burdens on companies.[1] Administrative and regulatory procedures and rules (e.g. to acquire land, to create and close a business) are often complex and long while outcomes are uncertain. This hinders entrepreneurship, investment and growth.

Recommendations: Simplify rules and procedures. In particular, impose maximum timelines to regulatory approval processes and implement single-window clearance experiments more widely.

Simplify and modernise labour laws. Labour regulations are complex and some of them – such as employment protection legislation – are stringent, especially for large industrial firms. This reduces labour market dynamism, contributes to labour market duality and drives many workers (including women) into informality or out of jobs.

Actions taken: Some states have amended key labour laws and the central government has introduced a single window website to help businesses meet compliance requirement for various laws. Labour inspections have been made more transparent by using a random computerised method.

Recommendations: Reduce barriers to formal employment further by introducing a simpler and more flexible labour law which does not discriminate by size of enterprise. Ease provisions requiring government approval to terminate employment contracts.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

Enhance access to, and quality of, the education system. Though rising, participation in education remains low while the quality of provision is often poor.

Actions taken: No significant action taken.

Recommendations: Continue improving access to education, especially at the secondary level, and improve the quality of education. Provide vocational training earlier in the cursus.

Other key priorities

Promote more effective infrastructure-related regulations. Severe infrastructure bottlenecks endure, partly reflecting ineffective procedures for land acquisition and for approval of investment projects.

Actions taken: A Cabinet Committee on Investment has been set up to fast track the approval process of large investment projects. The Right to Fair Compensation and transparency in Land Acquisition, Rehabilitation and Resettlement Law passed in 2013 should reduce disputes and litigation, and thus uncertainties attached to land acquisition. However, land acquisition remains complex.

Recommendations: Monitor the implementation of the land acquisition law and review it if it fails to shorten the land acquisition process. For large infrastructure projects, simplify the regulatory approval process by e.g. imposing clear timelines.

Undertake wide-ranging financial sector reforms. Reforms to promote the development of a dynamic and efficient financial sector are needed to support investment and inclusive growth.

Actions taken: The Reserve Bank of India approved the issuance of new banking licenses in 2014 and now allows banks to open branches without prior permission. Foreign banks can open subsidiaries and branches across the country, subject to domestic regulation.

Recommendations: Ease bank portfolio restrictions including by gradually reducing the share of government bonds held by banks and by establishing a plan to phase out priority lending. Allow greater participation by foreign investors in the financial service sector and further promote the entry of new private banks.

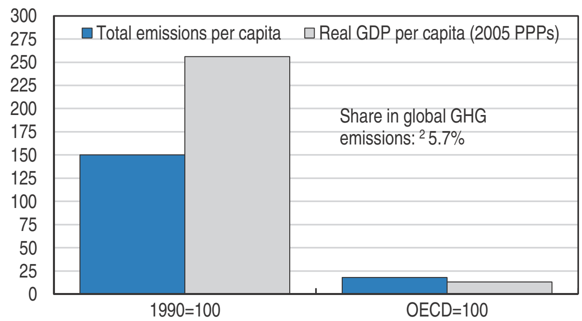
Reform areas no longer considered a priority in *Going for Growth*

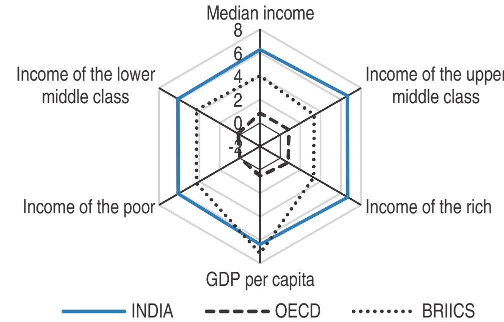
Reduce trade and FDI barriers. In order to encourage FDI inflows and productivity improvements, it was recommended to reduce FDI barriers in some key sectors.

Actions taken: The government has been reducing FDI barriers in several sectors, including multi-brand retail, civil aviation, defence, telecom, petroleum, construction, railways and courier services.

INDIA

Beyond GDP per capita: Other policy objectives





1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. Due to data limitations, income levels across the distribution are derived by combining quintile income shares from nationally representative household surveys on consumption expenditures and gross national income of the household sector from the national accounts. This implies limited comparability with OECD countries' data and generally an underestimation of inequality compared to measures based on income. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-09 for India.

Source: Panel A: OECD, *Energy (IEA) Database*; World Bank, *World Development Indicators (WDI) Database*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: World Bank, *World Development Indicators (WDI) Database*.

StatLink http://dx.doi.org/10.1787/888933178930

INDONESIA

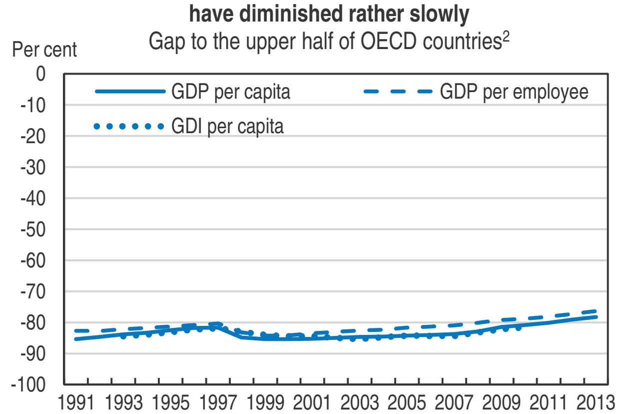
- While large, Indonesia's GDP per capita gap relative to the upper half of the OECD is continuing to narrow, reflecting strong labour productivity growth as the economy continues to shift away from low-productivity primary sectors to services and manufacturing. Labour utilisation is already relatively high in Indonesia but has also continued to contribute to rising GDP per capita.
- Progress is being made in a number of previous priority areas including education outcomes and the provision of infrastructure. However, none was made in reducing foreign direct investment (FDI) barriers and rigidities in the labour market, including capping increases in the minimum wage. Measures to improve the regulatory environment for infrastructure have been taken including streamlining land acquisition and setting up an investment co-ordinating body.
- The targeting and coverage of programmes designed to increase access to education should be improved, and measures to improve the quality of teaching should continue. Infrastructure investment needs to be stepped up, especially through efforts to encourage private-sector participation. Measures to slow the rate of growth of minimum wages need to be taken, especially as they tend to be used as a reference for increases across the whole wage structure.
- Progress has being made in reducing government fuel subsidies, but more needs to be done. Eliminating fuel and electricity subsidies would allow a reprioritisation of spending in areas aimed at promoting equitable and sustainable growth, including ramping up spending on education and infrastructure. Reforms in this area would not only boost growth but also raise equity and environmental sustainability.

Growth performance indicators

A. Average annual growth rates
Per cent

	2003-08	2008-13
GDP per capita	4.2	4.5
Labour utilisation[1]	0.4	0.8
Labour productivity	3.8	3.7

B. Gaps in GDP per capita and productivity have diminished rather slowly
Gap to the upper half of OECD countries[2]



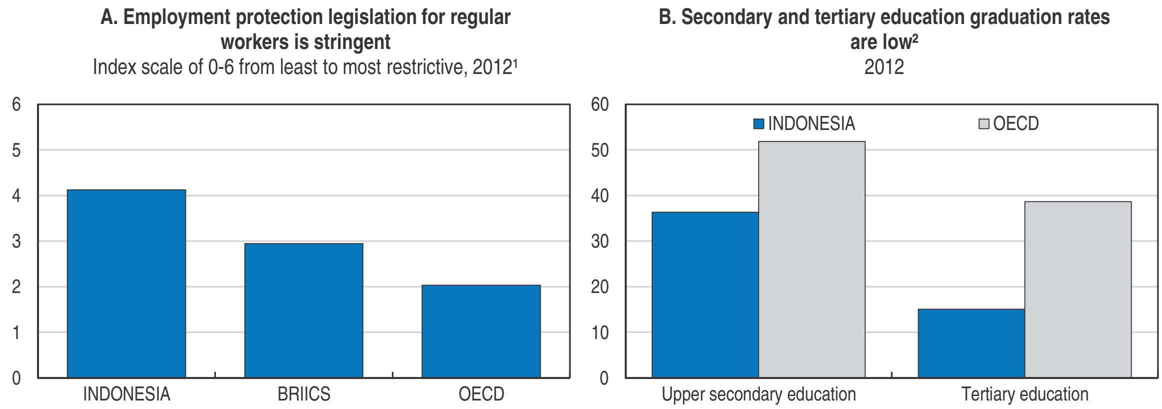
1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per employee and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts Database*; World Bank, *World Development Indicators (WDI) Database*; and ILO, *Key Indicators of the Labour Market (KILM) Databases*.

StatLink http://dx.doi.org/10.1787/888933178069

INDONESIA

Policy indicators



1. 2013 data for the OECD average.
2. Graduation rate at upper secondary level for typical age from the general programmes and graduation rate for typical age at tertiary-type A level (first degree).

Source: Panel A: OECD, *Employment Protection Database*. Panel B: OECD (2014), *Education at a Glance 2014: OECD Indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eag-2014-en*.

StatLink http://dx.doi.org/10.1787/888933178493

Going for Growth 2015 priorities

Priorities supported by indicators

Enhance outcomes in education. Public spending on education has fallen below the government's target, and both outcomes and teaching quality remain poor.

Actions taken: Programmes to improve teacher qualifications through certification and training are continuing to be expanded: guidelines for teacher performance assessment and progression came into force on 1 January 2013. The targeting of conditional cash transfers aimed at facilitating access to education will improve with the development of a national poverty database.

Recommendations: Continue stepping-up spending in education. Encourage higher enrolment and quality at primary and secondary levels through regular teachers' assessments and professional development. More closely link teacher salaries to qualifications and performance.

Improve the regulatory environment for infrastructure. Regulatory uncertainty, particularly at the regional level, is hampering private investment in infrastructure, including via PPPs.

Actions taken: A new land acquisition regime is slowly being implemented, which should smooth the way for the development of much needed transport infrastructure investment. The establishment in 2014 of an Infrastructure Prioritising Body (KP2IP) and a PPP centre within the Ministry of Finance are steps in the right direction.

Recommendations: Lift government spending on infrastructure. Focus on transportation, logistics, and on poverty-alleviating infrastructure. Consider issuing infrastructure bonds. Allow sub-central governments to participate in PPPs.

Reform labour regulation and cap minimum wage increases to address the problem of informality. Rigidities in the recruitment of labour, including severance procedures, are inhibiting growth in the formal workforce. This is especially problematic as minimum wage increases tend to be used as the benchmark for increases across the whole wage structure.

Actions taken: The annual rate of growth of minimum wages still outstrips labour productivity growth in many provinces.

Recommendations: Introduce unemployment benefits, initially at a low level, make dismissal procedures more flexible, and reduce severance payments. In provinces where the minimum wage is deemed to be sufficient from an equity standpoint, limit real increases to be no more than labour productivity gains.

Other key priorities

Further reduce energy subsidies. Over 20% of total government spending goes to fuel and electricity subsidies. These subsidies disproportionately benefit richer households and lead to overconsumption and undesirable environment impacts.

Actions taken: Taken together, the reduction in fuel subsidies in June 2013 and in November 2014 increased the price of diesel and gasoline by 67% and 89%, respectively. This will bring both prices closer to world market prices.

Recommendations: Continue to phase out fuel and electricity subsidies, which will allow a reprioritisation of government spending programmes. Compensate the poor through existing poverty reduction schemes, as necessary.

Ease barriers to entrepreneurship and investment, and strengthen institutions to fight corruption. Businesses, foreign and domestic, face significant barriers to both formation and operation. Corruption remains an impediment to business growth and the efficient functioning of the civil service.

Actions taken: The authorities have been stepping up the fight against corruption, notably with increased staffing and trials of high-profile politicians. Reforms to the bureaucracy are also continuing, including a roll-out of reform programmes to the sub-national level.

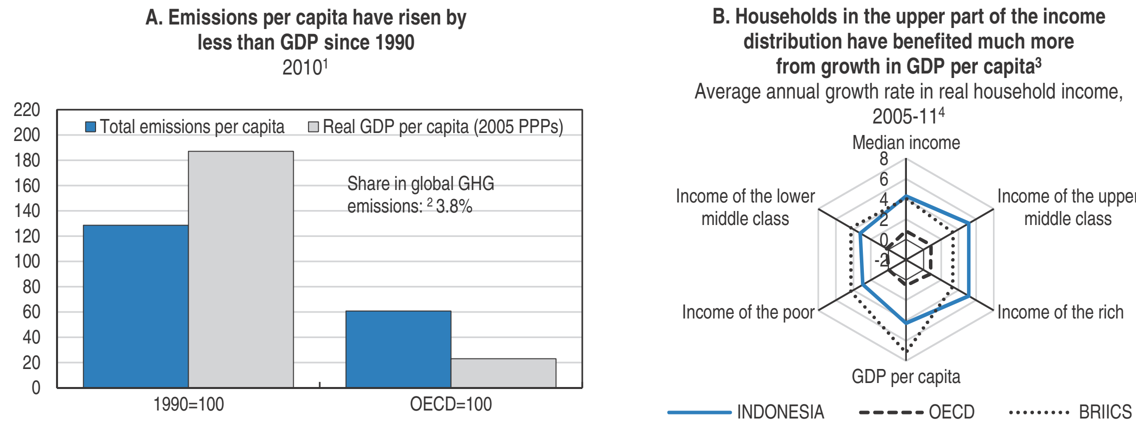
Recommendations: Ease barriers to domestic and foreign investment by removing non-strategic sectors from the negative investment list and by removing logistics bottlenecks in ports. Boost the resources of the Corruption Eradication Commission in order to enable appropriate handling of all reported cases of corruption.

Reform areas no longer considered a priority in *Going for Growth*

For Indonesia, all priority areas from the 2013 issue of *Going for Growth* are maintained.

INDONESIA

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. Due to data limitations, income levels across the distribution are derived by combining quintile income shares from nationally representative household surveys on consumption expenditures and gross national income of the household sector from the national accounts. This implies limited comparability with OECD countries' data and generally an underestimation of inequality compared to measures based on income. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-10 for Indonesia.

Source: Panel A: OECD, *Energy (IEA) Database*; World Bank, *World Development Indicators (WDI) Database*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: World Bank, *World Development Indicators (WDI) Database*.

StatLink http://dx.doi.org/10.1787/888933178921

IRELAND

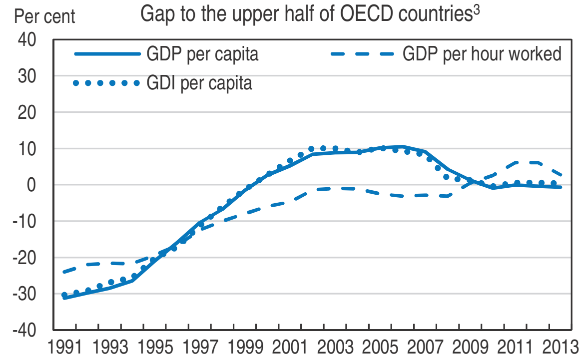
- GDP per capita has remained steady at close to the average of the upper half of the OECD in recent years. A fall in labour utilisation has been offset by a rise in labour productivity.
- The bankruptcy framework has been improved, including by introducing a new personal insolvency procedure. Good progress has been achieved on modernising the public employment services.
- Enhancing job-search assistance and retraining opportunities for the unemployed would help raise employment. Removing barriers to entrepreneurship and competition and fostering innovation would encourage a more dynamic and cost-competitive home-grown business sector.
- Continued efforts to improve labour market activation, especially by evidenced-based improvements in returns to training programmes, would help both employment growth and social cohesion by getting more of the still large pool of poorly-qualified, long-term unemployed back into work.

Growth performance indicators

A. Average annual trend growth rates
Per cent

		2003-08	2008-13
Potential GDP per capita		2.5	0.6
Potential labour utilisation		0.3	-0.7
of which:	Labour force participation rate	0.5	-0.2
	Employment rate[1]	-0.2	-0.5
	Trend employment coefficient[2]	0.0	-0.1
Potential labour productivity		2.2	1.3
of which:	Capital deepening	0.8	0.4
	Labour efficiency	0.7	0.3
	Human capital	0.7	0.6

B. GDP per capita is equal to the average of advanced OECD countries
Gap to the upper half of OECD countries[3]



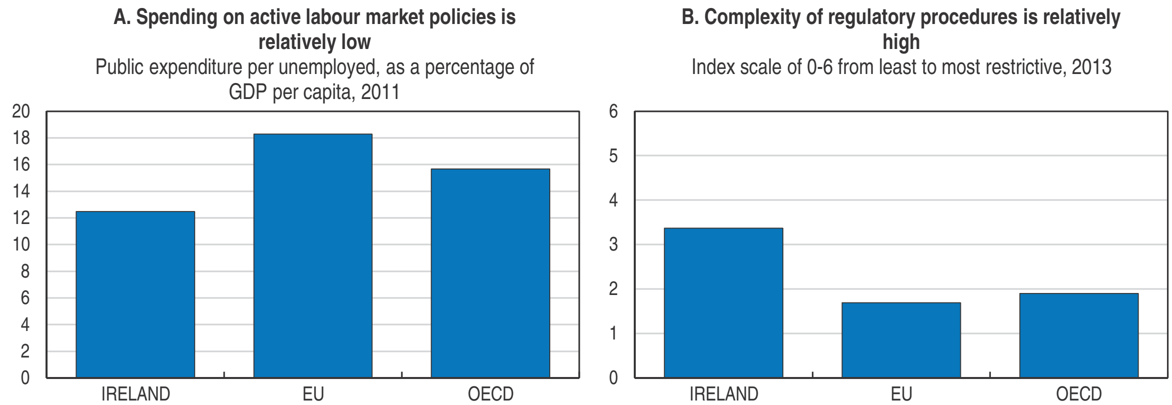
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177822

IRELAND

Policy indicators



Source: Panel A: OECD, *Public expenditure and participant stocks on LMP and Economic Outlook Databases*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178253

Going for Growth 2015 priorities

Priorities supported by indicators

Strengthen work incentives for women. Female participation rates and hours worked are relatively low, especially for mothers, which is partly due the relatively high costs of childcare. This contributes to Ireland having one of the highest proportions of people living in households with low work intensity in the EU, increasing the risk of social exclusion and child poverty.

Actions taken: No action taken.

Recommendations: Reduce implicit tax rates on lone parents returning to work and second earners. Increase access and affordability of childcare.

Strengthen competition in non-manufacturing sectors. Competition in utilities and some sheltered service sectors including transport, the legal profession and ports remains relatively weak.

Actions taken: Public service obligation bus routes were opened to competitive tender from December 2014. Bord Gais Energy (main supplier of pipeline gas) was privatised in mid-2014.

Recommendations: Decrease vertical integration in electricity. Enact the Legal Services Regulation Bill to introduce an independent regulator for the legal profession. Shorten lease periods for port terminal operators and issue more stevedoring licences.

Enhance activation policies and reform the welfare system. The share of long-term unemployment is high and labour reallocation has been slow. This reflects various issues in the design of ALMPs and welfare systems, including poorly targeted programmes and labour supply disincentives embedded in the design of some social benefits.

Actions taken: The government has progressively been increasing the number of new Public Employment Services (Intreo) offices from 2012 to 2014. Their mandate is to encourage the return to work by providing integrated welfare and activation support as well as personalised services based on profiling. A new education and training authority (SOLAS) has been established to provide oversight and funding including for training of the unemployed.

Recommendations: Increase tracking of labour market outcomes following jobseekers' programme participation and adjust funding accordingly. Focus on long-term and low-skilled unemployed. Increase employers' involvement in training design. Allow for a smoother phasing out of benefits and supplementary payments (such as housing and medical benefits) as unemployed return to work.

Other key priorities

****Reduce barriers to entrepreneurship.****[1] The regulation of licence and permits required to start and operate a business is relatively restrictive. Enforcing contracts and registering property is also difficult for business.

Recommendations: Reduce fees and waiting times for licences and permits required to start and operate business. Continue to shift away from high fees charged to obtain planning permission towards recurrent property taxation. Introduce a real estate conveyancing profession.

Enhance R&D spending and innovation. R&D spending remains relatively low and most activity is undertaken by foreign firms.

Actions taken: The authorities have launched a pilot national health innovation hub and a Small Business Innovation Research Programme. R&D tax credit generosity and flexibility have been further increased.

Recommendations: Concentrate resources for promoting co-operation between industry and researchers in a smaller number of centres of excellence. Introduce a Research Technology Organisation focussed on SME needs.

Reform areas no longer considered a priority in *Going for Growth*

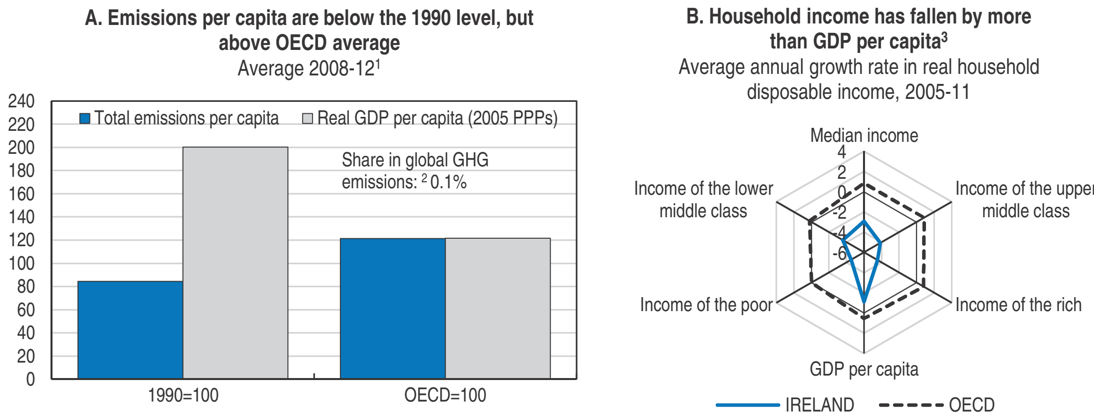
Reform the bankruptcy system. To resolve non-performing loans and rehabilitate debtors faster, it was recommended that a structured non-judicial debt settlement system for personal insolvency be introduced.

Actions taken: A new alternative set of personal insolvency procedures providing for negotiated debt settlement and administered by a new agency, Insolvency Service of Ireland, was brought into operation in 2013. In December 2013 the discharge period for bankruptcy was reduced from 12 to three years and a new option to file bankruptcy notices cost free was provided.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

IRELAND

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178684

ISRAEL

- The income gap with leading OECD economies continues to narrow gradually, mainly reflecting a rising employment rate among Ultra-Orthodox and Arab-Israeli population. Productivity convergence with the most advanced countries, however, remains slow.
- The governance of large company groups has been reformed to reduce their market power. Some progress has been achieved in integrating the vulnerable groups into the labour market. School infrastructure and class-sizes in the Arab sector have continued to improve, but progress remains slow.
- Further raising education standards and promoting welfare-to-work measures, focusing on vulnerable groups, would boost the growth potential. More competition and less red tape for businesses would stimulate productivity.
- Better education of Arab-Israeli and Ultra-Orthodox populations combined with more ambitious welfare-to-work programmes would improve earnings capacity and reduce relative poverty from its very high level. Stronger competition in non-tradable sectors, hence lower prices, would be most beneficial to real incomes among the poor.

Growth performance indicators

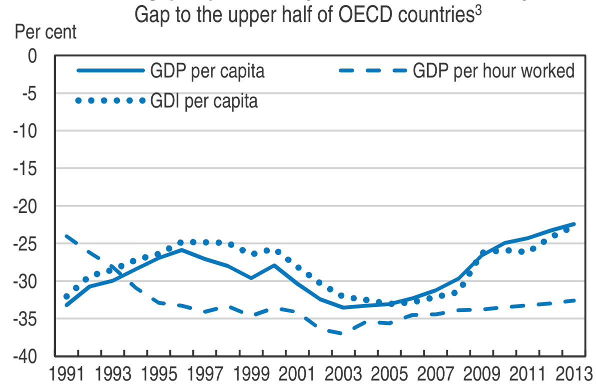
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.4	1.9
Potential labour utilisation		0.7	1.1
of which:	Labour force participation rate	0.3	0.5
	Employment rate[1]	0.5	0.6
	Trend employment coefficient[2]	-0.2	0.0
Potential labour productivity		0.7	0.8
of which:	Capital deepening	0.1	0.2
	Labour efficiency	0.5	0.6
	Human capital	0.1	0.0

B. The gap in productivity has narrowed modestly

Gap to the upper half of OECD countries[3]



1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

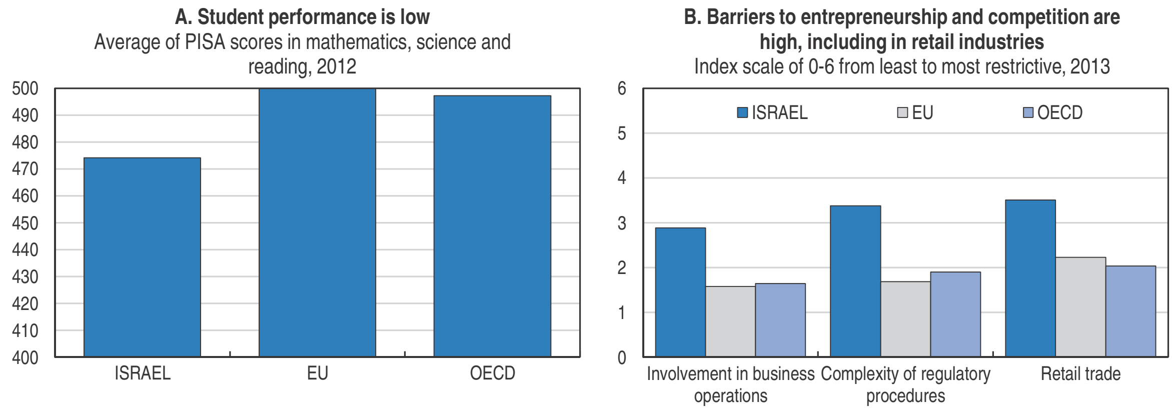
Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177832

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

ISRAEL

Policy indicators



Source: Panel A: OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178263

Going for Growth 2015 priorities

Priorities supported by indicators

Improve education outcomes and inequalities. Outcomes in state education are weak, especially among Arab students, while core secular subjects are insufficiently taught in Ultra-Orthodox schools.

Actions taken: Investment in education in the Arab sectors has further shrunk the gap in class sizes of primary schools over the 2011-13 period.

Recommendations: Continue to develop Arab-Israeli schooling infrastructure, until average class size reaches a similar level as in the rest of the country. Make state funding for Ultra-Orthodox schools conditional on whether they teach the core curriculum, including mathematics, science and foreign languages.

Cut red tape for businesses. Heavy government regulatory procedures and involvement in business operations are hampering the functioning of product markets and private-sector activity.

Actions taken: A committee has been established in early 2014 to identify the regulatory obstacles for doing business. Co-ordination of local and central government interventions has been improved since end-2013 to expedite housing construction.

Recommendations: Pursue efforts to streamline business licensing and shorten processing times. Lift remaining price controls, especially on staples.

Complete network industry reform. Opening up network industries to stronger market pressures would stimulate efficiency and investment, especially in the electricity sector, where the state-owned incumbent remains the core producer, controls the grid and is the sole distributor.

Actions taken: Recent renewed attempt at reforming the electricity sector by a government-appointed committee failed. Plans for the construction of two new private ports are moving ahead.

ISRAEL

Recommendations: Resolve the deadlock in the electricity sector: boost competition in generation, introduce independent management of the grid, and open distribution to private companies. In telecoms, establish an independent regulator and increase competition in post, rail and water services.

Other key priorities

Expand welfare-to-work programmes and ensure enforcement of labour laws. Low employment rates among Arab women and Ultra-Orthodox men weaken potential growth and material living standards among low-income workers. As a result, about one in five households is below the relative poverty line.

Actions taken: The earned income tax credit (EITC) has been raised in 2013, but its coverage and generosity remains low. Child allowances have become more targeted, but their value has been cut significantly. Labour inspectorate resources have increased to reach a ratio of employee per labour inspectorate close to the OECD average level in 2013.

Recommendations: Re-introduce a job-placement scheme. Increase the EITC to encourage take-up and raise the child allowances. Improve labour law enforcement by targeting inspections at sectors where there are many low-income workers, including Arab, Ultra-Orthodox and foreigners.

****Enhance competition in food industries.**** [1] Significant regulatory rigidities in the food industries including import barriers, price controls and distortionary agricultural subsidies lead to weak competition and high prices.

Recommendations: Remove remaining import barriers on food products. Reduce agricultural production-based support such as guaranteed prices and quotas for products like milk, eggs and wheat.

Reform areas no longer considered a priority in *Going for Growth*

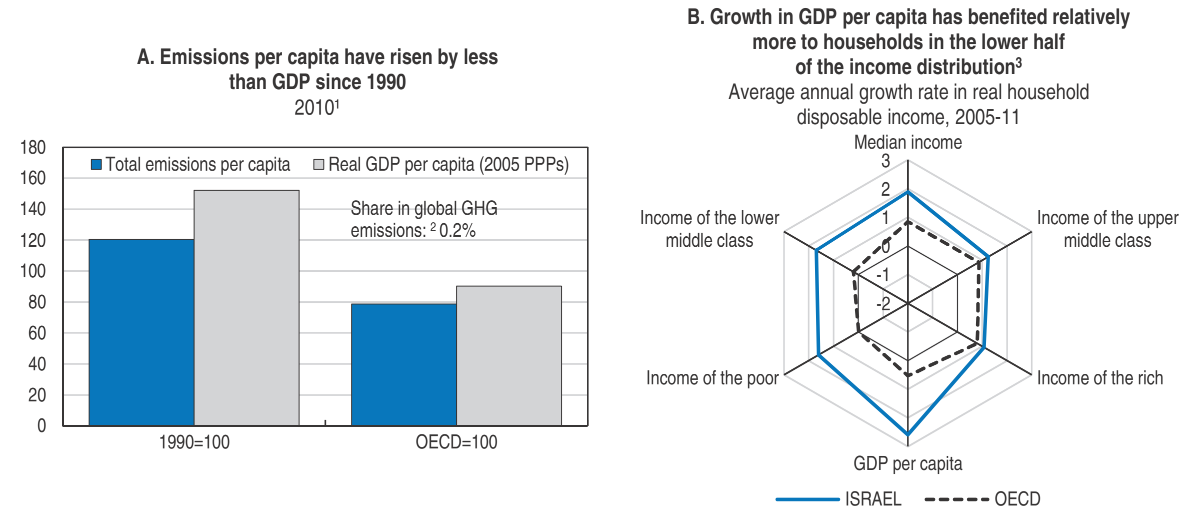
Enhance corporate governance. To strengthen competition and reduce the prominent role of business groups on the economy, it was recommended to improve their corporate governance.

Actions taken: New rules have been adopted in end-2013 preventing company groups from controlling both large financial and non-financial business interests. The use of pyramidal ownership structures (which was the main vehicle for levering control and channelling profits) has been limited to a maximum of two layers. Existing companies were given four years to reshape their business.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

ISRAEL

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178698

ITALY

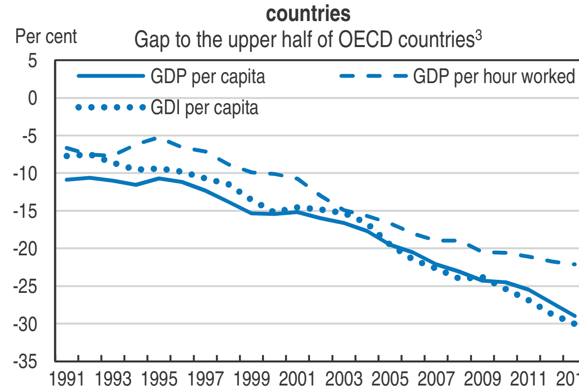
- The lack of recovery from recession is leading Italy's income per capita to fall further behind the leading OECD economies. The productivity performance continues to lag and labour force participation remains weak.
- First steps have been taken in 2014 to launch the government's ambitious reforms in various areas, notably the labour market and social protection, the tax and judicial systems. Some of the important series of measures taken in 2012, as well as in 2013, remain to be implemented.
- Pursuing the rebalancing of protection from jobs to workers' income should improve productivity by promoting a better allocation of labour to the most productive uses. Lower regulatory and ownership barriers to firm entry and exit can encourage investment, allocative efficiency and productivity growth.
- Tax simplification and broadening measures can reduce deadweight losses and opportunities for gaming the system, generating revenues to finance employment-friendly tax reductions. Labour market reforms aimed at reducing duality, and in particular achieving full implementation of a universal social safety net could also reduce inequalities.

Growth performance indicators

A. Average annual trend growth rates
Per cent

		2003-08	2008-13
Potential GDP per capita		0.2	-0.6
Potential labour utilisation		0.2	-0.4
of which:	Labour force participation rate	-0.1	-0.2
	Employment rate[1]	0.2	-0.2
	Trend employment coefficient[2]	0.1	0.0
Potential labour productivity		0.0	-0.2
of which:	Capital deepening	0.5	0.2
	Labour efficiency	-1.2	-1.0
	Human capital	0.8	0.6

B. GDP per capita and productivity have continued to fall behind the average of advanced OECD countries
Gap to the upper half of OECD countries[3]



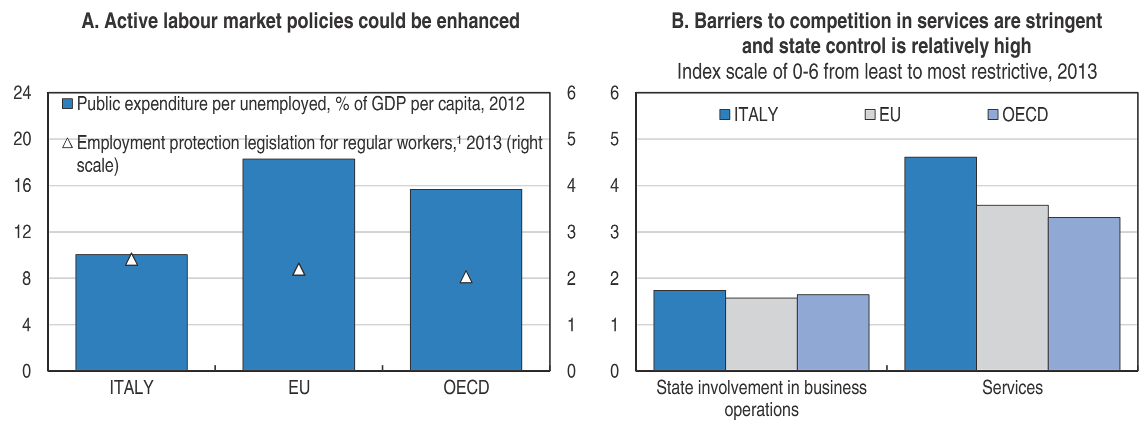
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177849

ITALY

Policy indicators



1. Index scale of 0-6 from least to most restrictive.

Source: Panel A: OECD, *Public expenditure and participant stocks on LMP, Economic Outlook and Employment Protection Databases*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178272

Going for Growth 2015 priorities

Priorities supported by indicators

Pursue rebalancing of protection from jobs to workers' income. Job protection of workers on some types of contracts is high, and the social safety net is relatively fragmented, resulting in a dual labour market, with implications for the efficient allocation of labour.

Actions taken: A 2014 decree removed most constraints on the use of short term contracts for a total of up to 3 years. The 2014 enabling labour market law mandates the government to introduce a series of potentially important reforms by mid-2015. These include: i) establishing a new contract for all new hires with increasing protection through time (grandfathering the rights of existing employees); ii) circumscribing the right to reinstatement after dismissal; iii) introducing a minimum wage for sectors not covered by national bargaining; and iv) extending the coverage of the new and more integrated unemployment benefit introduced in the 2012 reform.

Recommendations: Continue reducing labour market duality with more flexible hiring and firing and more predictable and less costly legal procedures, backed up with a more comprehensive social safety net and development of ALMPs. Use the monitoring system set up in the 2012 reforms to identify which active measures are most cost-effective, concentrating resources on these.

Improve equity and efficiency in education. Education gives low value for money and should do more to improve the chances of the low skilled.

Actions taken: Further specialised post-secondary vocational schools have been opened. Frequent management changes in the school evaluation agency, with a third head in four years, may undermine its effectiveness. Budgetary stringency has brought education spending clearly below the OECD average.

Recommendations: Pursue enhanced evaluation at the secondary level with a view to convincing teachers of its benefits. Further expand post-secondary vocational education. Increase university tuition fees and introduce a system of income-contingent-repayment student loans.

ITALY

Improve the efficiency of the tax structure. The tax wedge on low-wage labour is high, the tax code is over-complicated and evasion is high.

Actions taken: In 2013, frequent changes to the housing tax resulted in legislative instability and uncertainty. The income tax cut introduced on a temporary basis for 2014 has been made permanent. From 2015 to 2017, new permanent contracts will benefit from a large cut in social security contributions. The 2014 enabling tax reform law provides a broad mandate to the government, including for the revision of tax expenditures and environmental taxation, to be used by end of March 2015. Legislative decrees are in the pipeline for the simplification of some aspects of the tax system, the reform of cadastral values and the revision of excise duties on tobacco.

Recommendations: Reduce distortions and incentives to evade by reducing high nominal tax rates and abolishing many tax expenditures. Reduce instability in tax legislation, including by avoiding temporary measures. Tax a wider range of environmental externalities and maintain the commitment to eschewing tax amnesties. Continue to reduce labour taxation when the budgetary situation permits with a view to encouraging labour demand and supply, while avoiding distortions associated with threshold effects in marginal tax schedules.

Other key priorities

Reduce barriers to competition. Business perceptions of barriers to competition are high, possibly reflecting weak enforcement, including inefficient civil courts. Public ownership remains relatively high. Bankruptcy laws, despite some improvement, still lead to debt recovery procedures that are slower and more costly than in other countries.

Actions taken: Less action has been taken in 2013-14, after quite extensive deregulation in 2011-12; a significant number of implementing decrees from that period remain to be issued. The Transport Authority and restructured energy and water authority are now in operation. Some streamlining of courts to improve efficiency through scale and specialisation economies, as well as digitisation of procedures, has been implemented in 2014. Privatisation has fallen short of announced targets.

Recommendations: Ensure that reforms are fully implemented and at all levels of government. Pursue privatisation and eliminate ownership links between local government and service providers. Improve incentives for efficiency in the civil courts. Further streamline bankruptcy procedures to reduce the length and cost of debt recovery.

Enhance active labour market policies. Enhanced active labour market policies (ALMPs) would accelerate the return to work and reduce the risk of unemployment persistence.

Actions taken: The 2014 enabling labour market law aims to improve ALMPs overall, notably with the National Employment Agency which would co-ordinate passive and active policies.

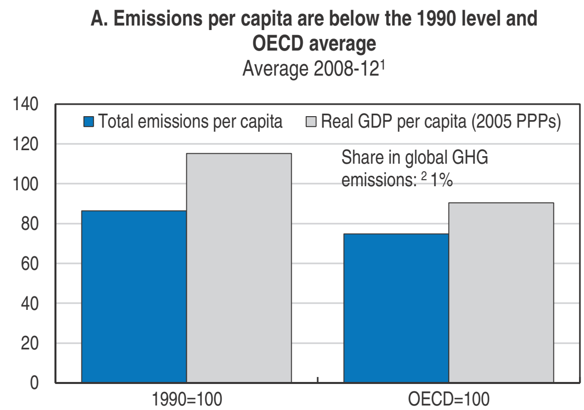
Recommendations: Strengthen ALMPs, concentrating resources on the long-term unemployed. Identify measures that work best in the Italian context with the system of monitoring ALMP beneficiaries introduced in 2014. Make sure that the provision of ALMPs and social benefits is closely linked to their activation.

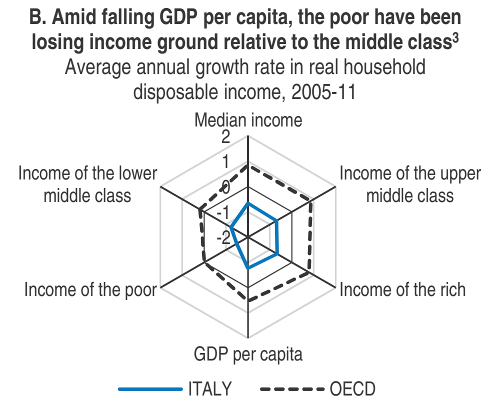
Reform areas no longer considered a priority in *Going for Growth*

For Italy, all priority areas from the 2013 issue of *Going for Growth* are maintained.

ITALY

Beyond GDP per capita: Other policy objectives





1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178703

JAPAN

- The GDP per capita gap relative to the upper half of the OECD remains large, as a decline in labour inputs has offset relative productivity gains. Nevertheless, average labour productivity remains nearly a quarter below the leading OECD economies, while labour utilisation is slightly above.
- The 2013 reform of agricultural policy, including a phasing out of quotas on the production of table rice, is being implemented. Legislation to strengthen competition in the electricity sector was approved in 2014. The introduction of National Strategic Special Zones in 2014 is promoting a range of structural reforms. The consumption tax rate was increased in 2014 and the corporate income tax rate was reduced.
- Narrowing the productivity gap requires reforms to reduce entry barriers and encourage inward FDI, particularly is services, where productivity has lagged behind. Measures to break down labour market duality and make the tax system more pro-growth are also needed. Enhancing the competitiveness of agriculture would facilitate Japan's participation in trade agreements. Increasing female labour force participation is essential to mitigate demographic headwinds from a falling population.
- Breaking down labour market duality would boost productivity, in particular by encouraging firm-based training, and reduce income inequality.

Growth performance indicators

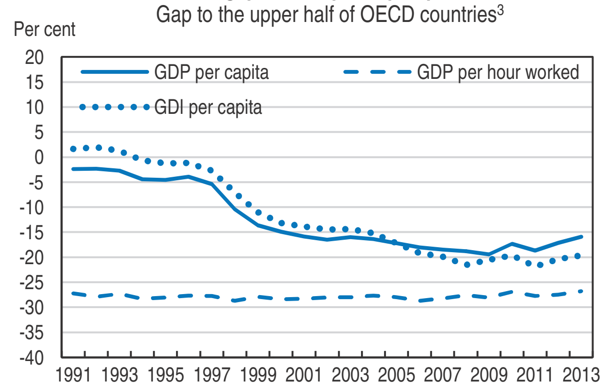
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		0.4	0.4
Potential labour utilisation		-0.5	-0.3
of which:	Labour force participation rate	-0.5	-0.3
	Employment rate[1]	0.0	0.0
	Trend employment coefficient[2]	0.0	0.0
Potential labour productivity		0.8	0.7
of which:	Capital deepening	0.2	-0.2
	Labour efficiency	0.1	0.4
	Human capital	0.6	0.5

B. The gap in GDP per capita persists

Gap to the upper half of OECD countries[3]



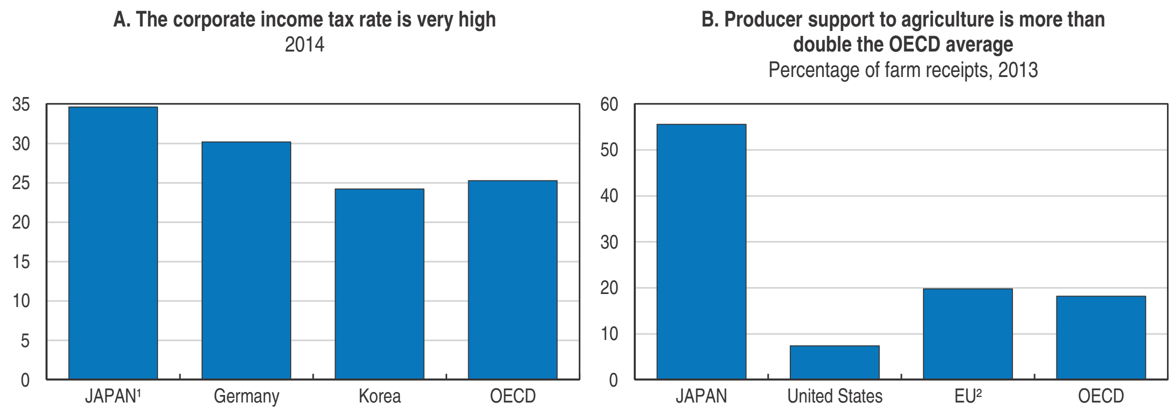
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177858

JAPAN

Policy indicators



1. In the fiscal year 2014 following the removal of the surcharge on the corporate income tax.
2. For this measure, EU refers to all 27 members of the European Union.

Source: Panel A: OECD, *Tax Database*. Panel B: OECD, *Producer and Consumer Support Estimates Database*.

StatLink http://dx.doi.org/10.1787/888933178286

Going for Growth 2015 priorities

Priorities supported by indicators

Ease entry barriers for domestic and foreign firms in the services sector. Product market regulations limit competition and investment in services, reducing productivity.

Actions taken: The June 2013 growth strategy calls for doubling the stock of inward FDI to JPY 35 trillion by 2020. In 2014, the government announced six "National Strategic Special Zones" in which regulations, including rules on construction and employment, will be relaxed to create a business-friendly environment. In 2014, the Electricity Business Act was revised to fully liberalise electricity retailing in 2016.

Recommendations: Extend the reforms in the Special Zones nationwide. Relax entry barriers, while reducing restrictions on service imports and inward FDI, including those on ownership. Increase fines on violators of the Anti-Monopoly Act (AMA) and reduce exemptions from the AMA. Steadily implement electricity market reform, including the unbundling of generation and transmission. Follow through on the full privatisation of Japan Post Group, including its banking and insurance companies, as outlined in the revised 2012 law.

Reduce producer support to agriculture. Support for agricultural producers is double the OECD average, distorting trade and production and complicating Japan's participation in comprehensive bilateral and regional trade agreements.

Actions taken: In December 2013, legislation was approved to establish institutions supported by regional governments to promote the consolidation of farmland. The government decided to phase out the administrative allocation of table rice production targets in around five years and abolish the direct payment to rice producers by 2018.

Recommendations: Reduce agricultural support and delink it from production. Facilitate the entry of business-oriented farmers, in part to promote farm consolidation.

Improve the efficiency of the tax system. With one of the highest corporate tax rates among OECD countries, together with a narrow base, and the lowest consumption tax rate, the tax system lowers Japan's growth potential.

Actions taken: In April 2014, the government raised the consumption tax rate to 8%. A second tax hike planned for 2015, conditional on economic conditions, was postponed to 2017. In addition, the government announced that the corporate income tax rate would be cut to below 30% within several years, financed by measures, such as broadening the tax base.

Recommendations: Carry out the planned increase in the consumption tax rate to 10% in 2017, while maintaining a single rate to avoid the distortions and poor targeting associated with multiple rates. Implement the announced cut in the corporate income tax rate, while broadening the tax bases for both the personal and corporate income taxes.

Other key priorities

Strengthen policies to support female labour force participation. The participation rate of women aged 25 to 54 in 2012 was the tenth lowest in the OECD.

Actions taken: The June 2013 growth strategy targets an increase in the share of employed women among the 25 to 44-age group from 68% in 2012 to 73% in 2020. Reforms to achieve this include eliminating waiting lists for childcare centres by 2017 and subsidising firms that facilitate family-friendly working conditions, for example subsidies to establish and run childcare facilities within the firm. In addition, as from 2015, listed companies are required to disclose the number of women in executive positions.

Recommendations: Encourage women's labour participation through a comprehensive approach that includes increasing the availability of affordable, high-quality childcare, reducing labour supply distortions in the tax/benefit system and addressing labour market duality.

Reform employment protection and upgrade training programmes. Labour market duality stems from the high proportion of non-regular workers – at more than a third of total employment – and is a major driver of income inequality. In addition to having low-paid and precarious jobs, these workers receive limited social protection coverage and less training.

Actions taken: An employment guideline was prepared for the National Strategic Special Zones to make the cost of employment adjustment more transparent.

Recommendations: Reduce effective employment protection for regular workers by increasing transparency about the cost of collective dismissal and reducing the role of the judicial system. Expand social protection for non-regular workers and upgrade training programmes for them.

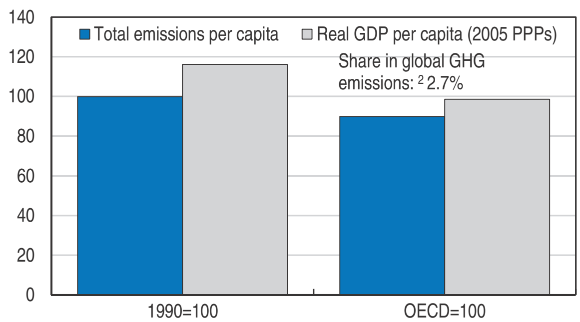
Reform areas no longer considered a priority in *Going for Growth*

For Japan, all priority areas from the 2013 issue of *Going for Growth* are maintained.

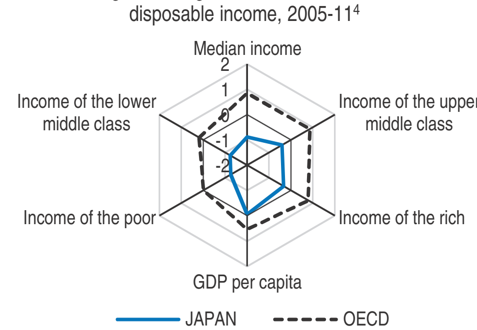
JAPAN

Beyond GDP per capita: Other policy objectives

A. Emissions per capita are at the 1990 level, slightly below OECD average
Average 2008-12[1]



B. Real household income declined relatively more for the poorer households[3]
Average annual growth rate in real household disposable income, 2005-11[4]



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2006-10 for Japan.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178719

KOREA

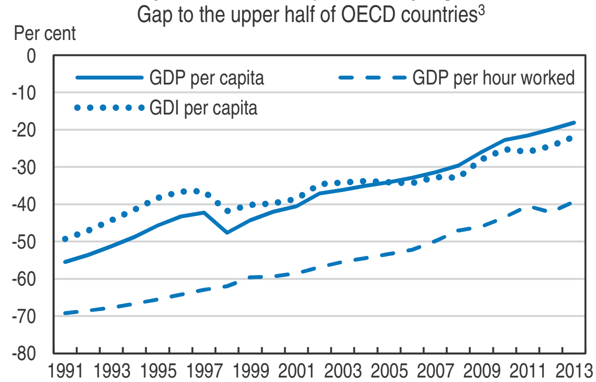
- Sustained rapid growth has brought GDP per capita to within a quarter of the upper half of the OECD countries. However, productivity in Korea is only about half as high, while working hours are among the longest in the OECD.
- Korea's 2013 roadmap to achieve a 70% employment rate and the 2014 Three-year Plan for Economic Innovation address some key priorities, with measures to reduce regulation and increase female labour force participation. Recent free trade agreements with Canada, Australia and New Zealand have reduced barriers to foreign direct investment and imports, including in agriculture.
- Further regulatory reform and measures to create an attractive business climate remain essential, in part to boost the stock of inward foreign direct investment, which is the second lowest in the OECD area. Improving the efficiency of the tax system by relying more on indirect taxes would promote growth while easing budgetary pressures associated with rapidly rising social spending. Measures to break down labour market duality would boost productivity growth and encourage female employment.
- In addition to boosting growth, reducing labour market duality would also lower income inequality.

Growth performance indicators

A. Average annual trend growth rates
Per cent

		2003-08	2008-13
Potential GDP per capita		3.0	2.6
Potential labour utilisation		0.0	0.2
of which:	Labour force participation rate	0.0	0.1
	Employment rate[1]	0.0	0.0
	Trend employment coefficient[2]	0.0	0.0
Potential labour productivity		2.9	2.4
of which:	Capital deepening	0.4	0.1
	Labour efficiency	1.6	1.6
	Human capital	0.9	0.7

B. The narrowing of the gap in GDP per capita has recently accelerated but productivity lags behind
Gap to the upper half of OECD countries[3]



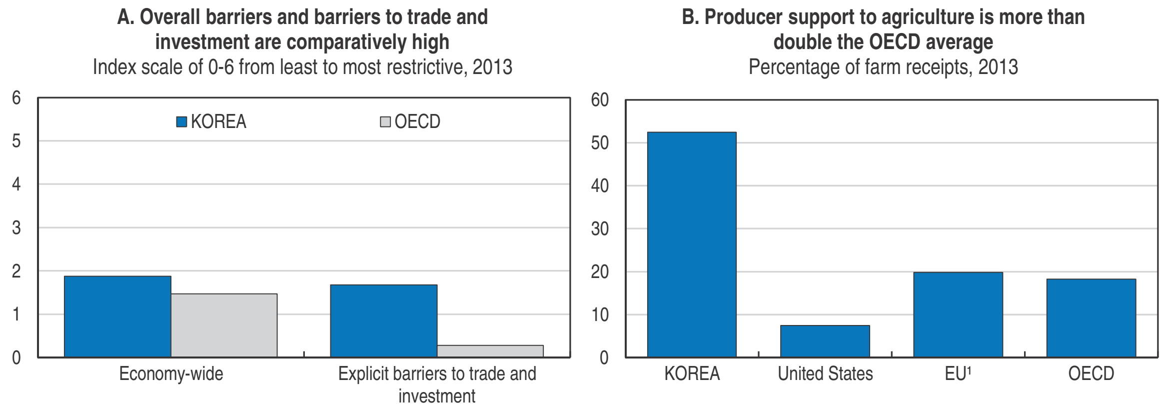
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177866

KOREA

Policy indicators



1. For this measure, EU refers to all 27 members of the European Union.

Source: Panel A: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*. Panel B: OECD, *Producer and Consumer Support Estimates Database*.

StatLink http://dx.doi.org/10.1787/888933178294

Going for Growth 2015 priorities

Priorities supported by indicators

Reduce the regulatory burden on economic activity. Restrictive product market regulation hinders competition, slowing innovation and productivity gains, particularly in the service sector.

Actions taken: Legislation introduced in 2014 caps the regulatory burden by requiring that an existing regulation be abolished whenever a new one is introduced. The law also requires that the strengthening of an existing regulation must be offset by relaxing another regulation. Under the reform, five key service industries – health, education, finance, tourism and software – are under review. A global fund was launched in 2014 to encourage investment by overseas venture capitalists in Korea. However, a (backward) measure in 2013 imposed restrictions on the entry of large firms in a number of business lines that are now reserved for small and medium-sized enterprises (SMEs).

Recommendations: Reduce barriers to foreign direct investment and improve the business climate, in part by enhancing the transparency of tax and regulatory policies, to attract foreign investors. Phase out entry barriers for large firms from business lines reserved for SMEs, which are primarily in the service sector.

Strengthen policies to support female labour force participation. Labour market duality contributes to reducing female employment and wage prospects. Increasing women's labour force participation, currently the fifth lowest in the OECD area, will boost employment and mitigate the negative impact of rapid population ageing.

Actions taken: From 2013, childcare and kindergarten subsidies are granted for all children aged five and below, regardless of household income. Parents are allowed to reduce working hours for up to two years following maternity leave. The government is increasing the number of high-quality part-time jobs in the public sector.

Recommendations: Break down labour market duality (see priority below). Encourage the use of parental leave and flexible working arrangements, including more part-time jobs. Expand the supply of affordable, high-quality childcare.

Reform employment protection. The large gap in wages and in job protection between regular and non-regular contracts and the low coverage of non-regular workers by social insurance makes labour market duality a major problem.

Actions taken: The government launched a plan in 2013 to convert around a quarter of fixed-term workers in the public sector to regular employment status by 2015. Reforms in 2014 are aimed at expanding the coverage of unemployment insurance to specific categories of self-employed workers.

Recommendations: Reduce effective employment protection for regular workers, in particular by simplifying and accelerating the remedy procedure for unfair dismissal, while expanding the social protection coverage of non-regular workers and upgrading training programmes for them.

Other key priorities

Improve the efficiency of the tax system by relying more on indirect taxes. The tax burden is low but the tax system can be made more growth-friendly, in particular given that the VAT is the second lowest in the OECD area. Such reform is also needed to cope with the double-digit growth of public social spending.

Actions taken: No action taken.

Recommendations: Rely primarily on indirect taxes, notably the VAT, as well as environmental taxes and property-holding taxes. Keep taxes on labour income low.

Reduce producer support to agriculture. High producer support, which is more than twice the OECD average, imposes a large burden on consumers and distorts the structure of agriculture.

Actions taken: In 2014, Korea signed Free Trade Agreements with Canada, Australia and New Zealand that significantly reduce barriers to agricultural imports.

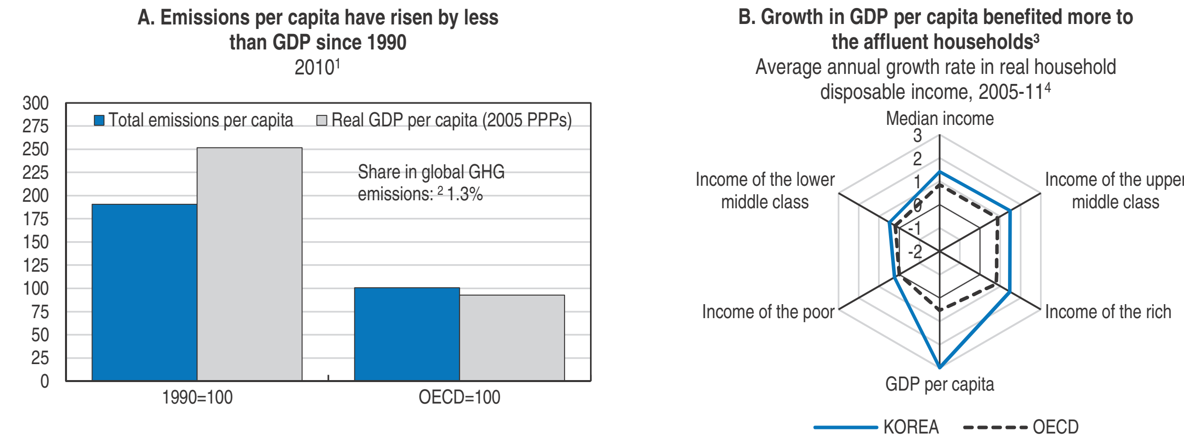
Recommendations: Further reduce barriers to agricultural imports and scale back the high level of support, while shifting its composition away from market price measures toward direct support.

Reform areas no longer considered a priority in *Going for Growth*

For Korea, all priority areas from the 2013 issue of *Going for Growth* are maintained.

KOREA

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2006-12 for Korea.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178720

LATVIA[1]

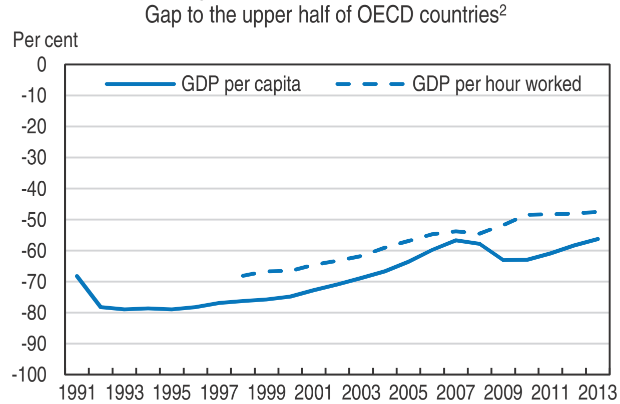
- Latvia has experienced a significant catch-up over the past ten years in terms of GDP per capita. Following a big hit during the crisis, convergence has resumed. Yet, the income gap remains substantial, at about a half compared with advanced OECD countries. Both hours worked and productivity lag significantly behind the OECD average. In addition, the share of long-term unemployment remains high.
- Ensuring a sustainable catch-up will require boosting competition and innovation in domestic markets, encouraging formal labour force participation and tackling infrastructure bottlenecks.
- Improving employment and wage prospects of the most vulnerable by stepping-up active labour market policies and lowering the tax burden on low wages would achieve both growth and equity objectives.

Growth performance indicators

A. Average annual growth rates
Per cent

	2003-08	2008-13
GDP per capita	8.3	0.4
Labour utilisation[1]	3.5	-2.0
Labour productivity	4.7	2.4

B. Convergence in GDP per capita has resumed
Gap to the upper half of OECD countries[2]



1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per employee and GDI per capita (in constant 2005 PPPs).

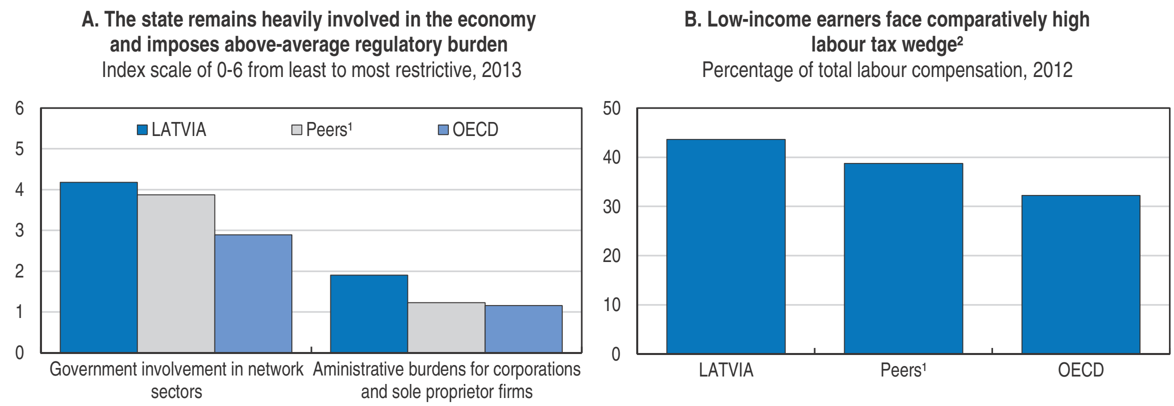
Source: OECD, *National Accounts Database*; and World Bank, *World Development Indicators (WDI) Database*.

StatLink http://dx.doi.org/10.1787/888933178106

1. Since this country is covered for the first time in *Going for Growth*, structural reform priorities are all new by definition, which implies that there is no follow-up on actions taken on those priorities. Available data do not yet allow to identify indicator-based priorities by matching performance against policy indicators, as a result in this edition the identification of priorities is of qualitative nature and relies on country expertise.

LATVIA

Policy indicators



1. Average of the Czech Republic, Estonia, the Slovak Republic and Slovenia.
2. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Single person at 67% of average earnings without children. 2013 data for OECD average and peers.

Source: Panel A: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*. Panel B: OECD, *Taxing Wages Database*; and *European Commission: Economic Databases and Indicators*.

StatLink http://dx.doi.org/10.1787/888933178532

Going for Growth 2015 priorities

Reduce labour tax wedges and strengthen active labour market policies. Labour utilisation and productivity are held-back by high unemployment, inactivity and informality, with associated risks of social exclusion and poverty. This partly reflects work disincentives embedded in tax and benefits system as well as insufficient active labour market policies.

Recommendations: Continue decreasing the labour tax wedge in line with a gradual withdrawal of social benefits, ensuring that work pays. Continue to improve activation policies, for instance by strengthening the role of individual counselling and co-operation of the public employment service with local municipalities who distribute social benefits and services.

Reduce regulatory burdens and state involvement in the economy. Red tape weighs on both corporations and sole proprietors firms and the state maintains a significant presence in the economy, with only weak corporate governance standards.

Recommendations: Reduce regulatory burdens by cutting down red tape, reviewing existing legislation and streamlining various procedures, such as getting electricity and construction permits. Reduce state ownership in the economy. Improve corporate governance of state-owned enterprises by reinstating boards of governors, requiring mandatory annual reporting and centralising oversight and management in line with arm's length principles.

LATVIA

Strengthen infrastructure. Energy, road and port infrastructure are underdeveloped. Weak connectivity of energy networks isolates Latvia from European markets.

Recommendations: Enhance the quality of transport infrastructure, focusing on roads and ports. Promote port efficiency, including by enhancing management transparency and facilitating private investment. Improve connectivity of energy networks to the rest of the EU.

Improve efficiency of the tax system. Weak revenue collection and tax evasion hamper growth. This also makes it difficult to reduce the tax burden on labour.

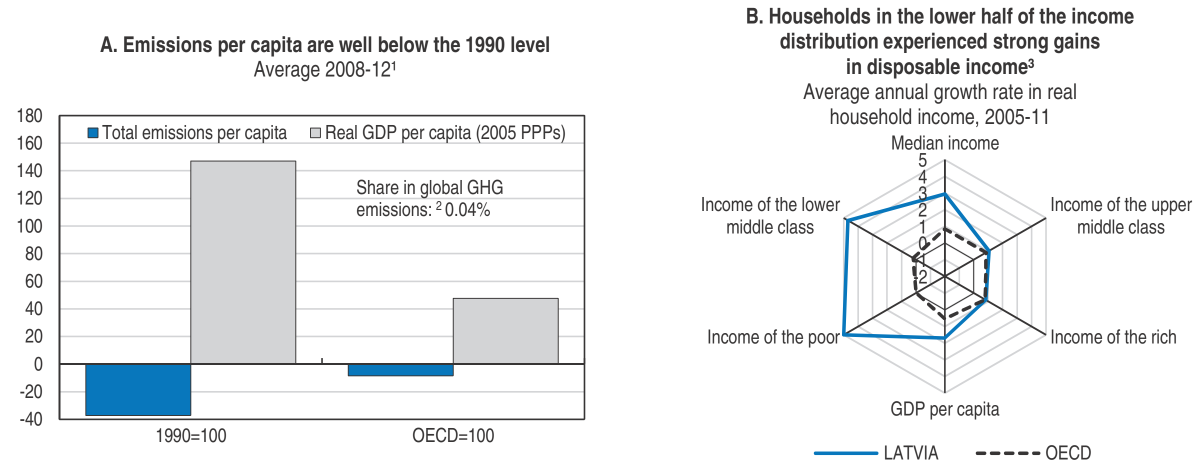
Recommendations: Continue to strengthen revenue collection, including by fighting against tax evasion. Revise the tax mix by reducing labour taxes and increasing immovable property and environmentally-related taxes. Review rules that allow micro-enterprises to pay lower social security contributions, because such rules risk reducing firms' incentives to expand and hamper tax compliance.

Improving R&D and innovation framework. R&D investment and output is low and weak in both public and private sectors.

Recommendations: Implement the planned reform of public R&D and tertiary education, ensuring a higher degree of internationalisation and strengthening collaboration with the private sector. Review the current public support to ensure that small start-ups can benefit from both tax incentives and grants.

LATVIA

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178966

LUXEMBOURG

- Income per capita remains significantly above the level of other OECD countries but is diminishing, owing to declining labour productivity. Employment is also comparatively high. Labour force participation is weaker, although it has recently increased.
- Progress has been achieved in the area of active labour market and training policies, with the implementation of the "Youth guarantee" programme, and, though to a lesser extent, in the area of product market regulation, with the abolishment of reference prices for some professional services.
- To address rising unemployment of residents, reforming the welfare system would strengthen work incentives while job protection reforms could make the labour market more adaptable. Reducing early retirement incentives is needed to raise activity among older workers. Easing product market regulation would help maintain competitiveness and better designed housing policies would reduce commuting costs and facilitate resource allocation.
- In addition to improving work incentives, more targeted social benefits would help to better focus support towards low-income families and therefore reduce inequality. Reducing planning restrictions would support housing supply in urban areas and alleviate transport-related emissions.

Growth performance indicators

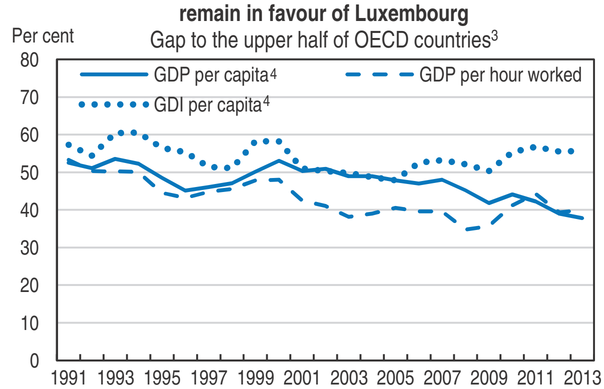
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.5	0.6
Potential labour utilisation		1.6	0.9
of which:	Labour force participation rate	0.5	0.7
	Employment rate[1]	-0.3	-0.3
	Trend employment coefficient[2]	1.4	0.5
Potential labour productivity		-0.1	-0.3
of which:	Capital deepening	-0.1	-0.1
	Labour efficiency	-0.3	-0.5
	Human capital	0.2	0.3

B. The income and productivity gaps diminished but remain in favour of Luxembourg

Gap to the upper half of OECD countries[3]



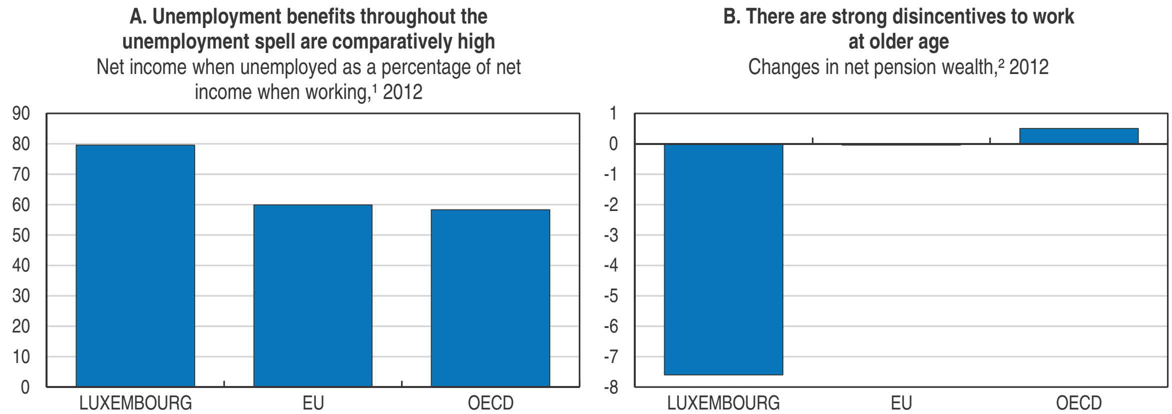
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).
4. The population is augmented by the number of cross-border workers in order to take into account their contribution to GDP.

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177874

LUXEMBOURG

Policy indicators



1. Average of net replacement rates for one-earner married couples and single with 2 children and without children, short and long-term unemployed persons who earned 67% and 100% of average worker earnings at the time of losing job.
2. The change in pension wealth is a measure of the incentive to remain in the workforce for an additional period. It measures the increase in the level of pension entitlement one gains by remaining in employment for an additional year. The calculation is the annual average increase in males' pension wealth when working from age 60 to 64. Net pension wealth is the present value of the flow of pension benefits, taking account of the taxes and social security contributions that retirees have to pay on their pensions. It is measured and expressed as a multiple of gross annual individual earnings in the respective country. See OECD (2013), *Pensions at a Glance 2013: OECD and G20 Indicators* for additional details, OECD Publishing, Paris, *http://dx.doi.org/10.1787/pension_glance-2013-en*.

Source: Panel A: OECD, *Tax-Benefit Models*. Panel B: *OECD Pension Models*.

StatLink http://dx.doi.org/10.1787/888933178304

Going for Growth 2015 priorities

Priorities supported by indicators

Reform the social benefit system. High marginal effective tax rates associated with the design of social benefits, especially for the low-skilled, discourage work.

Actions taken: The government adopted the "Youth guarantee" programme for jobs, education or training for those below 25 years of age in 2014, which is managed by the public employment service (ADEM) together with other authorities.

Recommendations: Lower unemployment benefit replacement rates and make them decline progressively throughout the entitlement period. Tighten eligibility conditions for young people without work histories. Reform the minimum income scheme (RMG) to reduce marginal effective tax rates. Make parts of the social benefit system that rely on universal payments means-tested or otherwise targeted.

Reduce disincentives to continued work at older ages. Labour force participation among older workers is low as a result of early retirement schemes and low incentives for continued work embedded in the old age pension system.

Actions taken: No action taken.

Recommendations: Abolish early retirement schemes so as to raise the effective retirement age. A new pension reform should include a progressive reduction of the replacement rate, limited credits for time spent outside work, actuarial neutrality around the statutory retirement age and indexation of the latter to longevity.

LUXEMBOURG

Increase competition in the non-financial services sector. Strict regulations hinder entry and competition, especially in retail trade and professional services.

Actions taken: Procedures initiated by the Competition Council abolished reference prices in several professional services (i.e. architects, health and safety co-ordinators, chamber of experts) and reduced price discrimination in mobile telephony.

Recommendations: Remove restrictions on advertising for professional services and facilitate co-operation between professions, and scrap minimum or reference prices. Make shop opening hours more flexible.

Other key priorities

Improve the functioning of the housing market. Limited supply of housing is compounded by transport systems strained by cross-border workers as well as policy distortions associated with planning regulations and property taxation

Actions taken: No action taken.

Recommendations: Overhaul the planning system to facilitate residential construction. Reduce implicit tax subsidies to home ownership and incentives to hoard building plots.

Ease job protection legislation. Strict job protection legislation hinders job opportunities for under-represented groups in the labour market and undermines the overall flexibility of the economy.

Actions taken: No action taken.

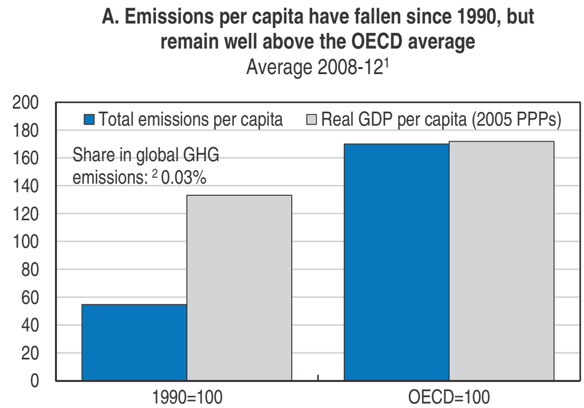
Recommendations: Ease conditions on collective dismissal and social plans. Lengthen trial periods under regular contracts for the low-skilled.

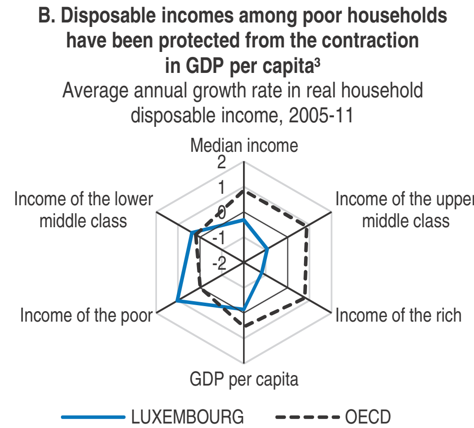
Reform areas no longer considered a priority in *Going for Growth*

For Luxembourg, all priority areas from the 2013 issue of *Going for Growth* are maintained.

LUXEMBOURG

Beyond GDP per capita: Other policy objectives





1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178730

MEXICO

- The persistently wide gap in GDP per capita relative to the upper half of the OECD is driven primarily by a low level and growth rate of labour productivity.
- Major policy reforms have been introduced in most priority areas: employment protection on regular contracts was substantially eased; a major energy reform was passed, allowing for risk sharing with the private sector; wireless, fixed-line, satellite, media, insurance and leasing sectors have been opened more substantially to foreign direct investment; and new telecom regulators, charged with enforcing competition, have been established.
- Raising educational achievement and reducing job informality is needed to boost productivity and improve labour market performance. Reducing barriers to foreign direct investment and lowering entry barriers in network industries would also help to stimulate investment and further strengthen competition. More broadly, legal institutions need to be improved to provide a more supportive environment for businesses.
- In addition to boosting productivity, improving educational achievement would foster human capital accumulation and reduce the degree of earnings inequality. Reforms to promote formal employment could also help to improve equity.

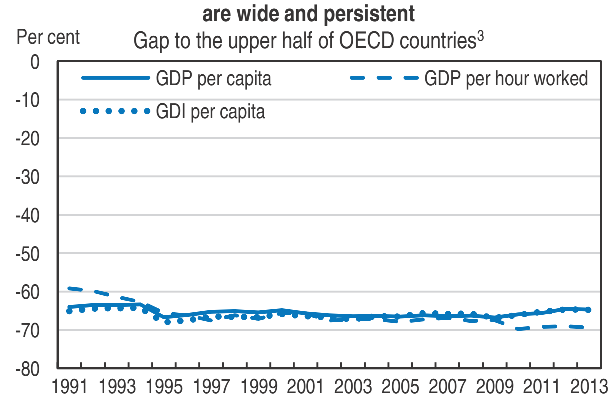
Growth performance indicators

A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		0.5	0.5
Potential labour utilisation		0.2	0.4
of which:	Labour force participation rate	0.0	0.0
	Employment rate[1]	-0.2	-0.1
	Trend employment coefficient[2]	0.4	0.5
Potential labour productivity		0.2	0.1
of which:	Capital deepening	1.1	0.8
	Labour efficiency	-1.7	-1.4
	Human capital	0.8	0.7

B. Gaps in GDP per capita and productivity are wide and persistent



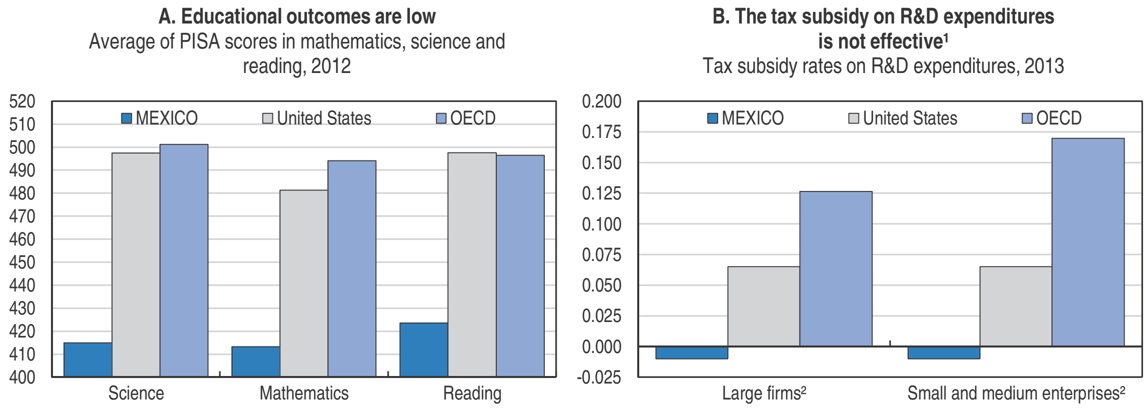
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177881

MEXICO

Policy indicators



1. The tax subsidy rate is calculated as 1 minus the B-index, the latter being a measure of the before-tax income needed to break even on USD 1 of R&D outlays.
2. Average of profitable and loss-making firms.

Source: Panel A: OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*. Panel B: OECD (2013), *OECD Science, Technology and Industry Scoreboard 2013: Innovation for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/sti_scoreboard-2013-en*.

StatLink http://dx.doi.org/10.1787/888933178314

Going for Growth 2015 priorities

Priorities supported by indicators

Raise education achievement. Low educational enrolment and quality limit productivity gains and contribute to high inequality.

Actions taken: National standards for primary and secondary teacher performance have been introduced in 2013, including an evaluation system and professionalisation of the training and selection of school principals. The first round of teacher evaluations was carried out in every state in mid-2014.

Recommendations: Fully implement the new national standards for primary and secondary teacher performance, the new teacher evaluation system, and fully professionalise the training and selection of principals. Provide schools with reliable financing through a more efficient allocation of resources.

****Strengthen innovation policies.**[1]* Lack of adequate R&D and high-tech investment limits absorptive capacity, and contributes to the decline in productivity.

Recommendations: Promote early-stage financing and industry co-operation with research institutes by strengthening industry networks, particularly through the facilitation of clusters.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

MEXICO

Reduce barriers to foreign direct investment. Barriers to foreign direct investment (FDI) in services and infrastructure are among the most stringent in the OECD, harming trade, investment and technological upgrading.

Actions taken: The wireless, fixed-line, satellite, media, insurance and leasing sectors have been opened more substantially to FDI in 2014. Secondary legislation to implement the 2013 reform of the energy sector has been approved, allowing for risk sharing with the private (including foreign) sector.

Recommendations: Open up transport and banking to FDI; further reduce foreign investment restrictions in telecom-related sectors. To ensure effective implementation of the energy reform, establish a regulatory framework that provides an attractive and competitive market for private investors.

Other key priorities

Improve the rule of law. Weaknesses in the legal system hurt the efficacy of contracts and the security of property rights, reducing firm size and investment.

Actions taken: The unified criminal procedural code was adopted in 2014. Most states have now begun to implement judicial procedural reforms that make use of oral trials. Fast-track courts for competition cases were set up in 2013 and are now in use, with nation-wide jurisdiction.

Recommendations: Improve the accountability and professionalism of the judicial sector. Further promote the full state-level implementation of the 2008 constitutional amendments that revamped the framework for penal justice, and the extension of these to civil and commercial cases that began in 2011.

Reduce barriers to entry and competition. Anti-competitive product market regulation hampers productivity and formal employment. Costly registration procedures and lack of contestability in key network sectors act as a drag on growth.

Actions taken: New sectoral regulators were introduced in the telecoms and energy sectors in 2013 and became operational in 2014; a new competition law was also passed in 2013 that strengthens the powers of the Competition Commission.

Recommendations: Further reduce barriers to entry for start-ups, especially at the state and local levels, thereby helping boost formal employment.

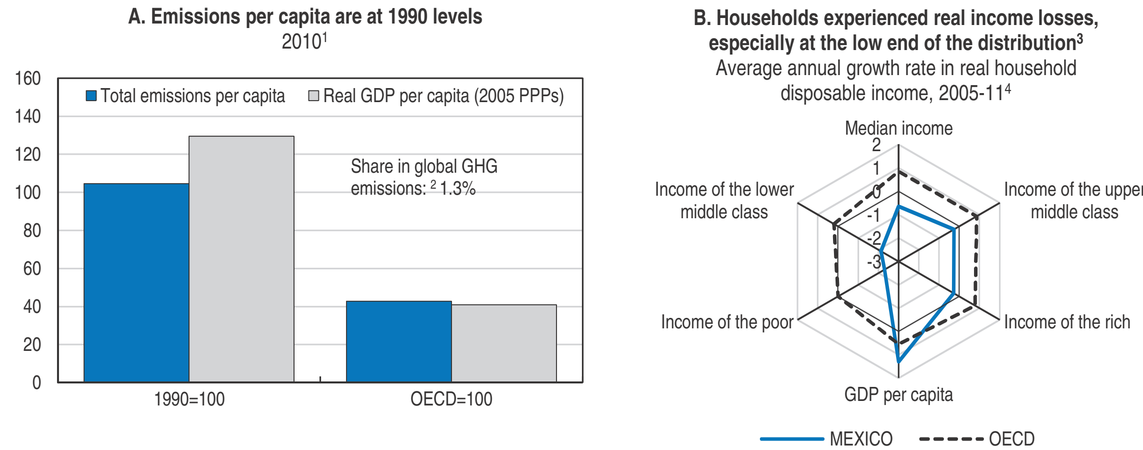
Reform areas no longer considered a priority in *Going for Growth*

Reduce job protection on formal contracts. In order to reduce informality, it was recommended to address institutional rigidities in the labour market by easing the stringency of job protection.

Actions taken: The labour reform introduced in 2012 eases the stringency of job protection for formal employment and this has the potential to reduce informality. New contracts allowing for more flexibility in wage adjustments came into use during 2013, also reducing judicial uncertainty.

MEXICO

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2004-12 for Mexico.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178743

NETHERLANDS

- Since 2009, the advantage in GDP per capita against the upper half of OECD countries has been reduced, mainly due to a declining trend in hourly productivity.
- Welcome policy steps have been taken to ease somewhat the protection of regular employment contracts and improve work incentives by increasing tax credits, and reforming disability and unemployment benefits. Some measures have also been adopted to reduce housing policy distortions.
- Priority should be given to broaden and deepen recent reforms to improve labour supply and its reallocation, by further easing the protection of regular contracts and sharpening work incentives through tax and benefit reforms. Raising the scope of the unregulated part of the housing market would also boost labour mobility.
- Ensuring swifter reduction in mortgage interest deductibility and better targeting social housing to low-income earners would stimulate the rental market while at the same time reducing income inequality.

Growth performance indicators

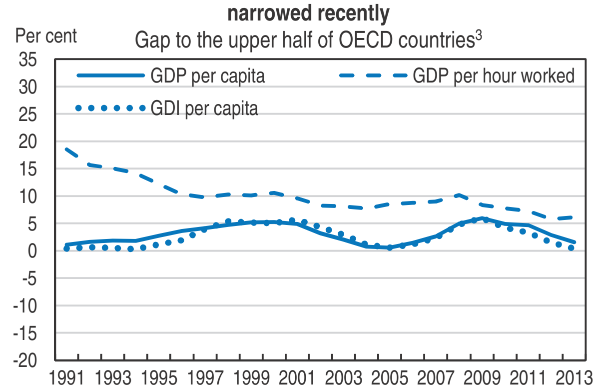
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.1	0.3
Potential labour utilisation		0.2	-0.2
of which:	Labour force participation rate	0.2	-0.1
	Employment rate[1]	0.0	-0.2
	Trend employment coefficient[2]	0.1	0.1
Potential labour productivity		0.9	0.5
of which:	Capital deepening	0.7	0.8
	Labour efficiency	-0.1	-0.6
	Human capital	0.3	0.3

B. The small positive gap in GDP per capita has narrowed recently

Gap to the upper half of OECD countries[3]



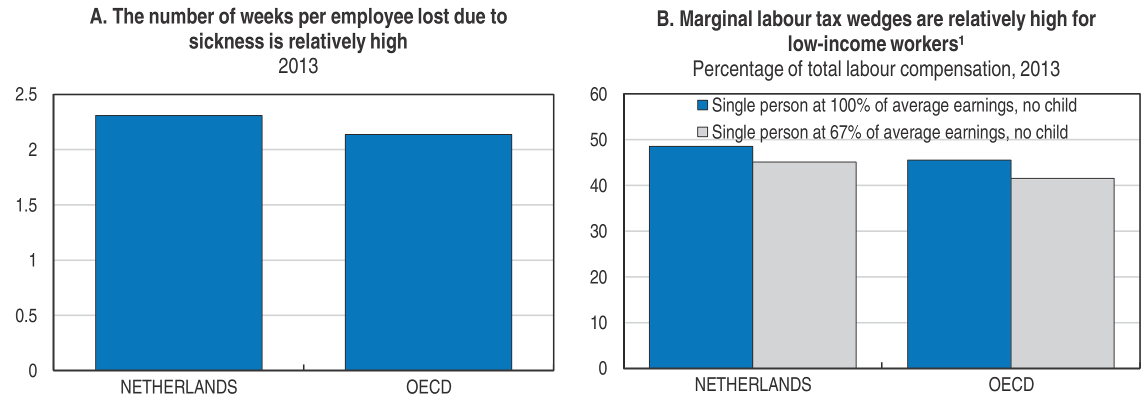
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177894

NETHERLANDS

Policy indicators



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
Source: Panel A: OECD estimates based on the European Labour Force Survey (unpublished data). Panel B: OECD, *Taxing Wages Database*.

StatLink http://dx.doi.org/10.1787/888933178328

Going for Growth 2015 priorities

Priorities supported by indicators

Lower marginal effective tax rates on labour income. High marginal effective tax rates hinder work incentives of low-income households and second-income earners.

Actions taken: The tax credit for low and middle-income earners was increased in 2013 and 2014 and will be further raised by 2017. Also, the withdrawal of the credit will start at an annual income level of around EUR 40 000 and will be abolished at about EUR 110 000.

Recommendations: Increase reduced value-added tax rates and phase out the tax credit at lower income levels to finance lower labour taxes for low-income earners. Phase out more rapidly the transferability of the individual tax credit. Make childcare support more dependent on second earners' income rather than family income.

Ease employment protection legislation for regular contracts. Dismissal procedures are complex and costly, especially for older workers, hindering labour reallocation.

Actions taken: From July 2015, dismissal procedures of regular contracts will be somewhat simplified. The severance pay will be linked to seniority rather than age and reduced to EUR 75 000 or an annual salary, whichever is higher, but workers over 50 will benefit from a more generous scheme until 2020.

Recommendations: Further simplify the dismissal system by ensuring swift decision-making and reduce uncertainty by capping additional compensation costs in the case of employer's unlawful behaviour. Make the cap on severance payments decreasing as workers approach retirement to prevent severance payment from being used as an early retirement route.

Reform the disability benefit schemes. The share of the working-age population receiving disability benefits is high.

Actions taken: From 2015, a new reform will be introduced with tighter eligibility criteria for disability benefits for young disabled persons.

Recommendations: Apply tighter criteria for eligibility to disability benefits for all recipients and strengthen monitoring mechanisms.

Other key priorities

Increase the scope of the unregulated part of the housing market. The rigid housing market hinders labour mobility, generating congestion and hampering housing investment and productivity.

Actions taken: Since 2013, new mortgages are eligible to interest tax deductibility only if they are regularly amortised. The tax treatment of mortgage interest has been made less generous for new and existing mortgages with a very gradual reduction over a 30-years horizon. Since July 2013, a gradual differentiation of rents by income has been initiated to encourage higher-income households to leave social housing.

Recommendations: In social housing, introduce tighter income conditions for eligibility, continue to differentiate rent increases depending on income and further relax rules for the sale of dwellings by housing associations. Fully liberalise rents for new constructions and for new contracts in the private rental sector. Ease strict land regulation. Accelerate the reduction of mortgage interest relief once the housing market starts to recover durably.

Reform the unemployment benefit system. The high level and duration of unemployment benefits reduce job-search incentives.

Actions taken: The maximum duration of unemployment benefits will be decreased from 36 to 24 months between 2016 and 2019, although social partners can agree on an additional insurance. From July 2015, the period after which all job offers will have to be accepted will be shortened from twelve to six months, in association with a broader definition of "suitable work".

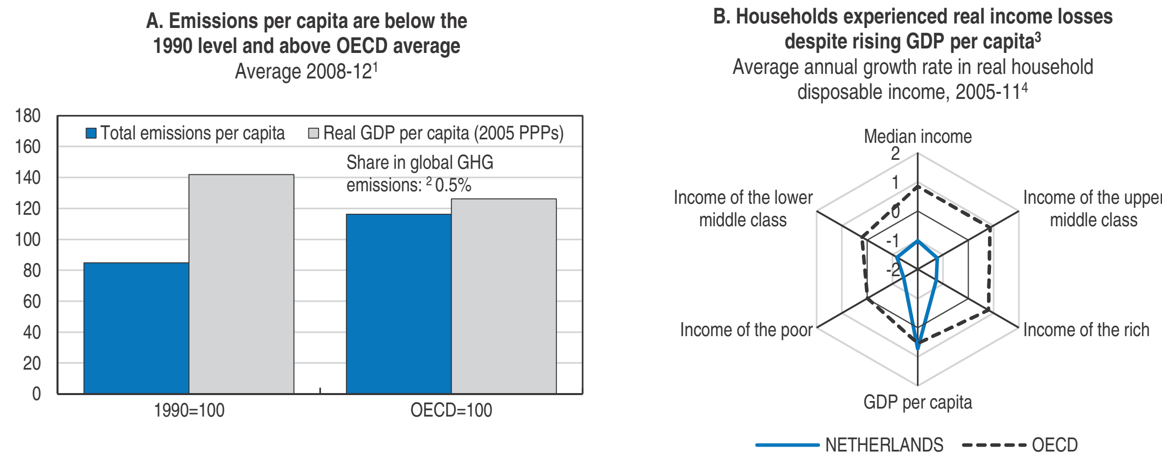
Recommendations: Further reduce benefit replacement rates and make them decline more rapidly throughout the unemployment spell. Lower the cap on unemployment benefits to further enhance job-search incentives for the high skilled. Continue to support training policies to reduce risks of skill mismatches and ensure appropriate allocation of labour resources in the economy.

Reform areas no longer considered a priority in *Going for Growth*

For the Netherlands, all priority areas from the 2013 issue of *Going for Growth* are maintained.

NETHERLANDS

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-12 for the Netherlands.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178753

NEW ZEALAND

- GDP per capita remains well below levels in leading OECD economies owing to a significant shortfall in labour productivity. However, favourable terms-of-trade developments have somewhat narrowed the income gap.
- Progress has been made in reducing state ownership in network industries and increasing the efficiency of government expenditure, including on research and development (R&D) grants. Little has been done to reduce inward FDI barriers and facilitate trade.
- Making the FDI screening process more transparent and facilitating trade could help to better integrate domestic firms into global value chains, thereby increasing productivity. Enhancing capacity and competition in network industries could also raise productivity. Stronger policy support to R&D could boost innovation.
- Reducing educational underachievement among low socio-economic groups would boost productivity and reduce inequality and poverty.

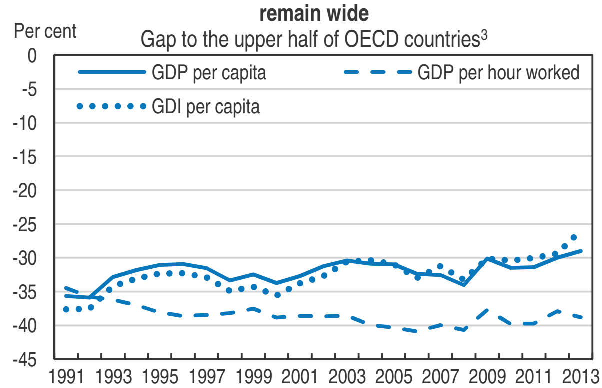
Growth performance indicators

A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.3	0.5
Potential labour utilisation		0.7	0.0
of which:	Labour force participation rate	0.4	0.1
	Employment rate[1]	0.0	-0.3
	Trend employment coefficient[2]	0.2	0.2
Potential labour productivity		0.6	0.5
of which:	Capital deepening	0.6	0.4
	Labour efficiency	-0.3	-0.2
	Human capital	0.4	0.3

B. Gaps in GDP per capita and productivity remain wide



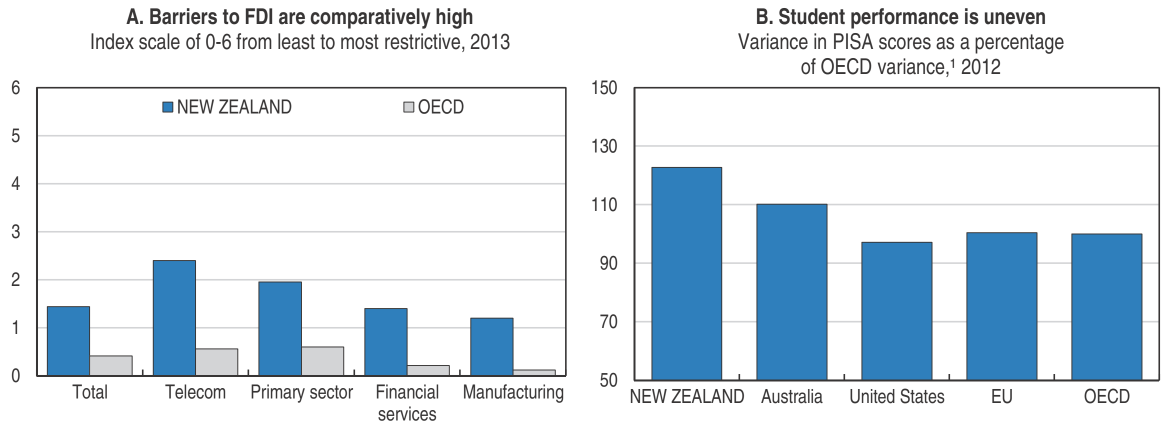
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177900

NEW ZEALAND

Policy indicators



1. OECD = 100. The variance components in mathematics, sciences and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the sample of students used in the analysis.

Source: Panel A: OECD, *OECD FDI Regulatory Restrictiveness Index Database*. Panel B: OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*; and OECD (2013), *PISA 2012 Results: Excellence through Equity (Volume II): Giving Every Student the Chance to Succeed*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201132-en*.

StatLink http://dx.doi.org/10.1787/888933178332

Going for Growth 2015 priorities

Priorities supported by indicators

Reduce barriers to trade and FDI. Non-transparent FDI screening and barriers to trade facilitation may deter trade and investment.

Actions taken: The government commissioned a report from the Productivity Commission, which was published in July 2014, on how to improve new regulatory regimes and make system-wide improvements to existing regulation. The Single Trade Window, which enables parties involved in international trade to submit clearance data required by border agencies electronically, became operational in 2014.

Recommendations: Implement the Productivity Commission's regulatory recommendations. Ease FDI screening requirements, clarify criteria for meeting the net national benefit test and remove ministerial discretion in their application. Increase the time that advance rulings on imports remain valid, and publish rulings of general interest.

Enhance capacity and competition in network industries. Barriers to competition in electricity, transport and telecoms deter investment and innovation.

Actions taken: The government sold large stakes in two major electricity generators and Air New Zealand in 2013 but remains the majority shareholder in each of these companies.

Recommendations: Sell remaining government shareholdings in electricity generators and Air New Zealand, and privatise New Zealand Post. In rail, liberalise entry, separate infrastructure ownership and service delivery and privatise KiwiRail. Remove legal exemptions from competition policy in international freight transport. Use tolls and congestion pricing to manage demand in road, energy and water sectors.

Reduce educational underachievement among specific groups. Maori and Pasifika students disproportionately leave school without basic job-market skills.

Actions taken: The government introduced charter schools, which are obliged to serve underprivileged children, on a trial basis in 2014. An education reform aiming to improve teaching by strengthening collaboration between principals, teachers and schools was agreed in 2014 and will be effective in 2015.

Recommendations: Better target early childhood education on groups with low participation. Improve standards, appraisal and accountability in the schooling system. To improve the school-to-work transition, enhance the quality of teaching, career advice and pathways, and expand the Youth Guarantee. Facilitate participation of disadvantaged youth in training and apprenticeships.

Other key priorities

Raise effectiveness of R&D support. Relatively low public funding of business R&D contributes to below-average R&D intensity.

Actions taken: The government recently established a government-owned company (Callaghan Innovation) to improve the transfer of knowledge, know-how and technology to firms and connect businesses accessing R&D grants with other publicly-funded R&D activity.

Recommendations: Boost funding for business R&D, by e.g. reinstating the R&D tax credit. Evaluate grant programmes. Co-ordinate immigration and education policies with business skill needs for innovation.

Improve health-sector efficiency. The public healthcare sector is relatively inefficient, and health inequalities are high.

Actions taken: The government established the Integrated Performance and Incentive Framework in 2014 to set quality and performance improvement targets for primary health organisations and financially reward good performance.

Recommendations: Increase District Health Boards' incentives to enhance hospital efficiency, improve workforce utilisation, integrate primary and secondary care, and better manage chronic care. Continue to encourage the adoption of more healthy lifestyles.

Reform areas no longer considered a priority in *Going for Growth*

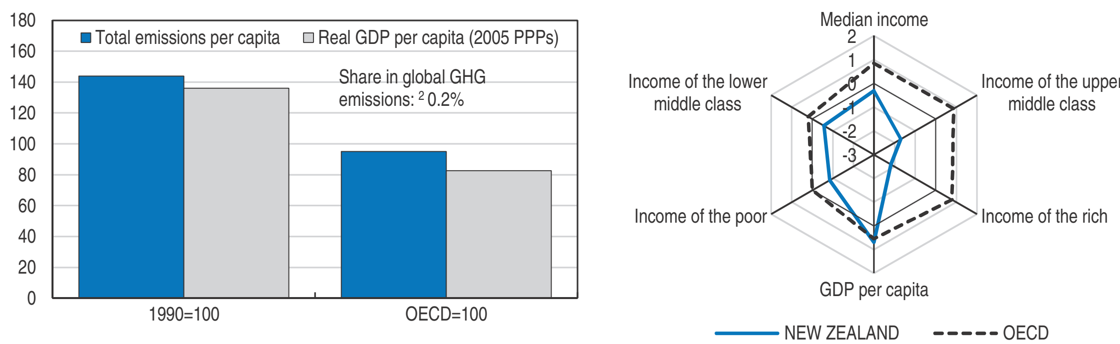
For New Zealand, all priority areas from the 2013 issue of *Going for Growth* are maintained.

NEW ZEALAND

Beyond GDP per capita: Other policy objectives

A. Emissions per capita are above the 1990 level and around the OECD average
Average 2008-12[1]

B. Households experienced real income losses[3]
Average annual growth rate in real household disposable income, 2005-11[4]



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2008-11 for New Zealand.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178765

NORWAY

- GDP per capita remains high relative to leading OECD countries (in terms of both total and mainland GDP). Growth in GDP per capita has declined, however, with a weaker contribution of both labour productivity and labour utilisation over the past five years. Multifactor productivity is the single most important factor explaining this decline.
- The government has taken some actions in the areas identified as priorities in the 2013 issue of *Going for Growth*, namely, the sickness and disability benefit schemes, product market competition, secondary education and the tax system.
- Pursuing reform of the sickness and disability benefit schemes would increase labour utilisation, while a stronger performance in secondary education would lay the ground for further human capital accumulation. Raising product market competition, reducing agricultural support and improving the design of capital taxation would boost labour productivity.
- In addition to improving the allocation of capital, removing the current tax discrimination in favour of owner-occupied relative to rental housing could also improve equity.

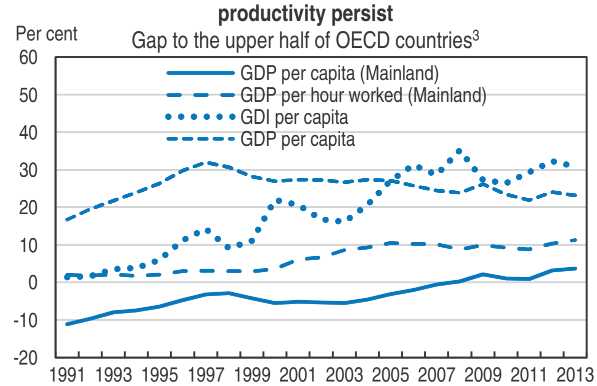
Growth performance indicators

A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.9	0.9
Potential labour utilisation		0.3	0.1
of which:	Labour force participation rate	0.2	0.0
	Employment rate[1]	0.1	0.0
	Trend employment coefficient[2]	0.2	0.1
Potential labour productivity		1.6	0.9
of which:	Capital deepening	0.5	0.4
	Labour efficiency	0.8	0.2
	Human capital	0.3	0.3

B. The positive gaps in GDP per capita and productivity persist



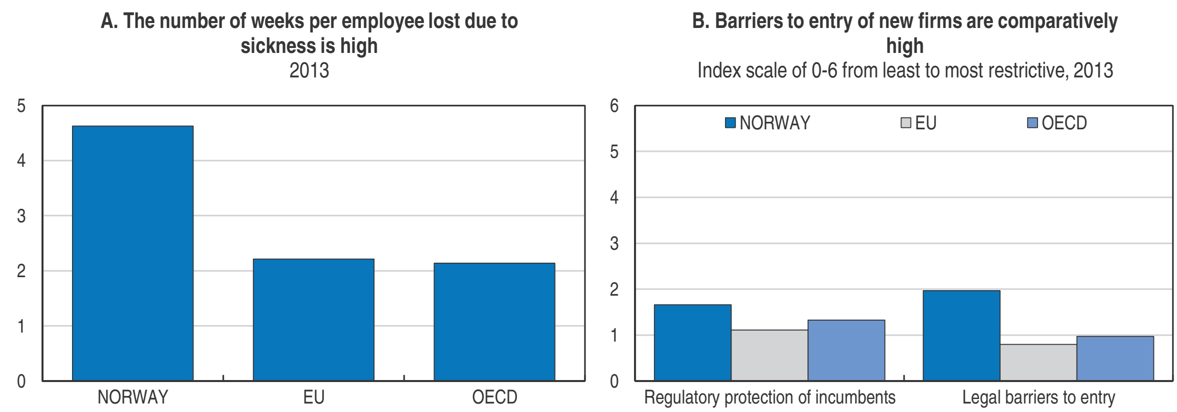
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs). GDP per capita (Mainland) excludes petroleum production and shipping. While total GDP overestimates the sustainable income potential, mainland GDP slightly underestimates it since returns on the financial assets the petroleum fund holds abroad are not included.

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177916

NORWAY

Policy indicators



Source: Panel A: OECD estimates based on the European Labour Force Survey (unpublished data). Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178347

Going for Growth 2015 priorities

Priorities supported by indicators

Reform disability and sickness benefit schemes. High levels of sickness absence and disability benefit recipients reduce labour utilisation.

Actions taken: In 2013, the authorities introduced a new trial using the work assessment allowance as a wage supplement, to make it easier to combine disability benefits and work.

Recommendations: Evaluate the effectiveness of the work assessment allowance trial and the July 2011 reform of sick leave. Tighten access to sickness and disability schemes with stronger enforcement of back-to-work plans and independent checks of general practitioners' assessments. If such action does not lower take-up, reduce the replacement rate for long-term sickness absence and shift more costs to employers.

Increase product market competition. Public ownership and entry barriers reduce competition and may result in lower productivity growth.

Actions taken: In 2014, the government sold Cermaq, one of the world's largest fish farming companies. The ownership share of Entra, a large real estate company, has been reduced from 100% to around 50%.

Recommendations: Reduce public ownership and entry barriers in some services, notably in retail, by lowering the costs of licences needed to engage in commercial activity. Ensure that companies with significant market power in telecommunications are properly regulated in terms of non-discrimination, access, transparency and price controls.

Reduce producer support to agriculture. The heavy protection of the agricultural sector encourages inefficient use of resources.

Actions taken: No action taken.

Recommendations: Progressively cut price support and import restrictions to bring domestic food prices more in line with international levels. Where support is for regional, social or environmental purposes, use more targeted and transparent policies, cutting the link with agricultural output.

NORWAY

Other key priorities

Strengthen performance in secondary education. Educational outcomes, as measured by PISA scores, are poor considering the high expenditure level.

Actions taken: The government tripled investment in teacher training in 2014.

Recommendations: Reduce the number of schools to achieve scale economies. Raise school and teacher accountability. Include school performance measures as a criterion in assessing school principals. Improve teacher training and career structures.

Improve the efficiency of the tax structure. The tax system distorts capital allocation and puts very high effective tax rates on some asset classes.

Actions taken: The tax-assessed values of second homes and commercial properties in the wealth tax have been increased. This implies a small reduction of the favourable tax treatment of real estate. The wealth tax rate has been slightly reduced.

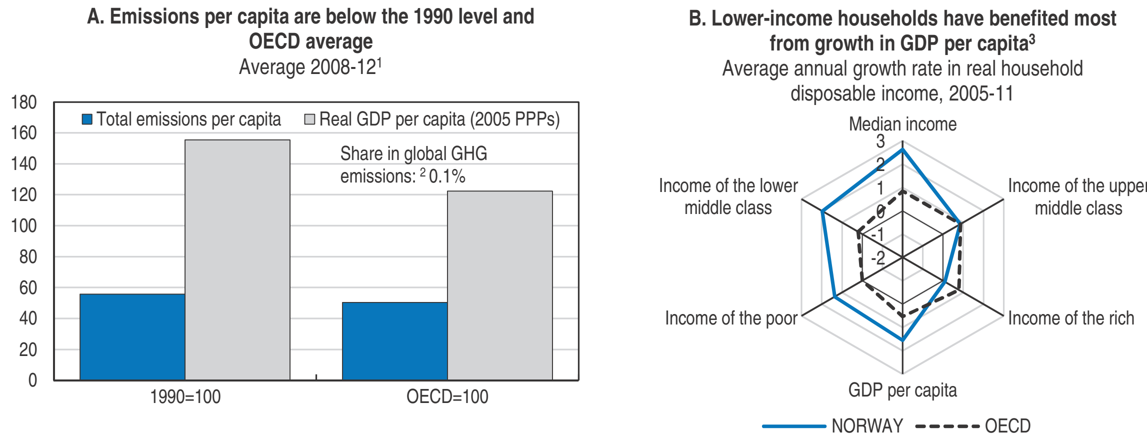
Recommendations: Align the taxation of different asset classes, in particular reduce the implicit tax subsidy for owner-occupied housing. Investigate the combined effects of wealth and capital income taxes on effective tax rates, tax avoidance/evasion and incentives to save and invest.

Reform areas no longer considered a priority in *Going for Growth*

For Norway, all priority areas from the 2013 issue of *Going for Growth* are maintained.

NORWAY

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2004-11 for Norway.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178775

POLAND

- GDP per capita has been converging steadily towards leading OECD countries due to strong labour productivity growth. However, the shortfall relative to the best performing countries remains substantial, notably because of the low employment rate of women and older workers.
- Progress has been made to boost labour utilisation and increase competitive pressures throughout the economy. In particular, access to pre-school education has increased. Reforms to deregulate professional services and cut red tape have also been significant. Less progress has been achieved in the area of welfare policies.
- Improving work incentives by reforming the welfare system and expanding pre-school facilities further would raise employment rates, especially among older workers and women. Lowering entry barriers, reforming bankruptcy procedures and continuing to enhance transport and telecommunication infrastructures would improve resource allocation, productivity and employment.
- In addition to boosting productivity and female labour force participation, improving the provision of pre-school education would also reduce educational and earnings inequality.

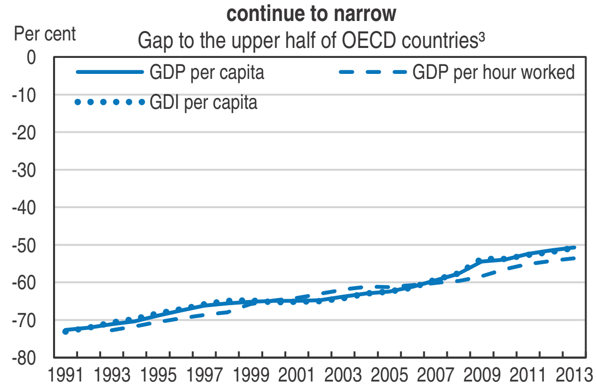
Growth performance indicators

A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		4.0	2.9
Potential labour utilisation		1.3	0.4
of which:	Labour force participation rate	-0.2	0.3
	Employment rate[1]	1.6	0.1
	Trend employment coefficient[2]	0.0	0.0
Potential labour productivity		2.7	2.5
of which:	Capital deepening	-0.1	0.3
	Labour efficiency	2.6	2.0
	Human capital	0.2	0.2

B. The large gaps in GDP per capita and productivity continue to narrow



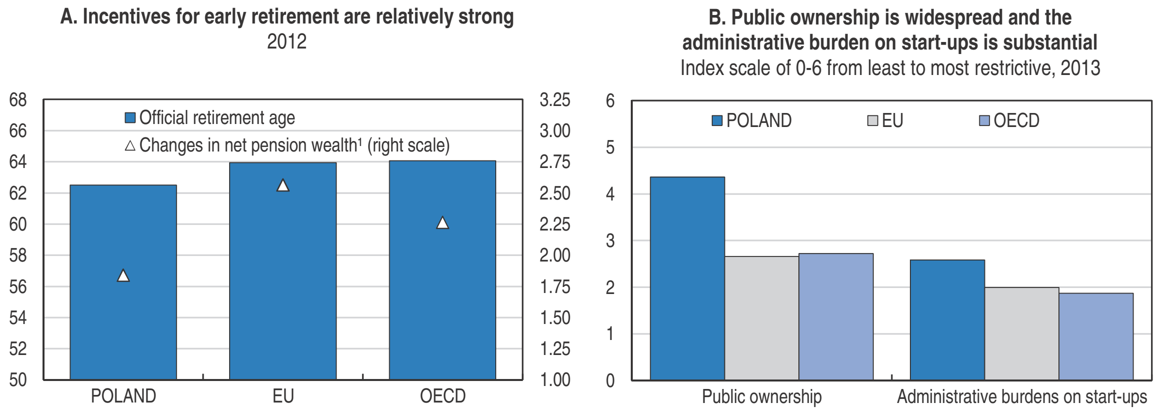
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177929

POLAND

Policy indicators



1. The change in pension wealth is a measure of the incentive to remain in the workforce for an additional period. It measures the increase in the level of pension entitlement one gains by remaining in employment for an additional year. The calculation is the annual average increase in males' pension wealth when working from age 55 to 60. Net pension wealth is the present value of the flow of pension benefits, taking account of the taxes and social security contributions that retirees have to pay on their pensions. It is measured and expressed as a multiple of gross annual individual earnings in the respective country. See OECD (2013), *Pensions at a Glance 2013: OECD and G20 Indicators* for additional details, OECD Publishing, Paris, *http://dx.doi.org/10.1787/pension_glance-2013-en*.

Source: Panel A: *OECD Pension Models*; and OECD Directorate for Employment, Labour and Social Affairs, *Ageing and Employment Policies – Statistics on average effective age of retirement*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178354

Going for Growth 2015 priorities

Priorities supported by indicators

Lower barriers to product market competition, and reduce public ownership. Stringent entry regulations, lengthy administrative procedures and inefficient bankruptcy procedures induce significant resource misallocation. Both national and local governments still play an important role in many potentially competitive segments of the economy.

Actions taken: In 2013-14, the government scaled back regulations of professional services in 142 professions and another wave of deregulation has started, covering more than 100 professions. Some entry procedures were eased in early 2014. The government plans to reform bankruptcy procedures for consumers and firms, and the parliament adopted a draft bill for consumers in June 2014. The 2012-13 privatisation plan has been finalised, raising revenues of 0.3% of GDP in 2013.

Recommendations: Further reduce administrative burdens and entry barriers. Improve bankruptcy procedures. Fully implement the planned deregulation of professional services. Pursue privatisation in competitive segments of the economy, notably for mining and chemical companies, while ensuring sound governance of the remaining state-owned enterprises.

Reform the welfare system, and reduce labour taxes. Some elements of the tax and benefits system hold back employment, especially for older and low-skilled workers. Such is the case of the high labour tax wedges (especially on low wages) and the relatively easy access to early retirement.

Actions taken: No action taken.

Recommendations: Increase women's retirement age at a more rapid pace than scheduled. Phase out all special occupational pension regimes, eliminate remaining pre-retirement schemes, and prevent disability pensions from becoming more attractive than old-age pensions. Remove the prohibition to lay off workers less than four years before retirement. Reduce the tax wedge on labour income, especially for low wages, by shifting the tax burden to environmental and immovable property taxes. Make all labour contracts subject to the same tax and social contribution regime.

Improve the equity and efficiency of the education system. The insufficient number of places in pre-school education holds back women's employment. Public higher-education institutions (HEIs) have little financial autonomy, their programmes are not well adapted to job-market needs, and access to student loans is restricted.

Actions taken: The government has been expanding mandatory pre-school education, but facilities remain insufficient. Parents' costs of accessing pre-school education were capped at PLN 1 per hour in June 2013. A new curriculum for vocational education was developed with employers and introduced in 2013; it requires that at least 50% of students' time be spent on practical training. A draft law foresees the obligation for HEIs to specialise in either academic or vocational education and to include 3-month internships in vocational programmes.

Recommendations: Continue expanding affordable pre-school education. Develop further the availability of apprenticeships and work-based learning. Encourage HEIs to develop high performing programmes by raising quality-oriented subsidies. Introduce tuition fees in public HEIs together with means-tested grants and student loans with income-contingent repayment.

Other key priorities

Upgrade transport, communication and energy infrastructure. The low quality of transport infrastructure hinders internal mobility. Fixed broadband penetration is among the lowest in the OECD and electricity generation relies heavily on ageing coal-fired plants.

Actions taken: Transport infrastructure is being upgraded with the help of EU funds. The government is developing cross-border energy connections and upgrading the electricity grid. However, progress in broadband coverage has been limited.

Recommendations: Continue to enhance transport and communication infrastructure. Facilitate competition in energy generation and ensure efficient investment in low emission generation capacity by implementing a single carbon price for all producers.

Reform housing policies. The absence of mandatory zoning plans, transaction taxes on housing purchases and rent controls hinder the functioning of the housing market.

Actions taken: Value-added tax refunds on building materials were abolished in 2014.

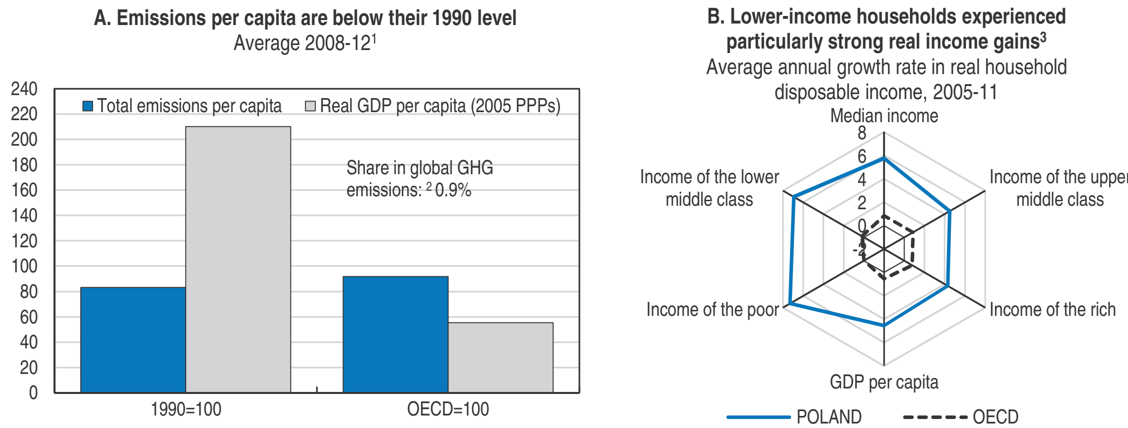
Recommendations: Require the release of zoning plans by municipalities. Replace transactions taxes on property by annual *ad valorem* taxes. Remove rent controls. Publish house price indexes for the country as a whole and for different market segments.

Reform areas no longer considered a priority in *Going for Growth*

For Poland, all priority areas from the 2013 issue of *Going for Growth* are maintained.

POLAND

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178781

PORTUGAL

- GDP per capita relative to the upper half of the OECD has declined over the past decade, mainly due to falling labour utilisation. However, lower productivity alone continues to explain the large gap in income levels.
- Considerable progress has been made in easing administrative burdens. Progress has also been made in reforming employment protection and adult education.
- Improving education and innovation outcomes and increasing competition in non-manufacturing sectors are essential for faster productivity growth. Abolishing administrative extension in wage bargaining would promote productivity and job creation. Furthermore, fighting high unemployment calls for continuing to scale up active labour market policies.
- Pursuing efforts to improve outcomes and also equity in education would raise equality of opportunity from its very low level. Reducing the age-dependency of unemployment benefits and widening their coverage further would help addressing labour market duality.

Growth performance indicators

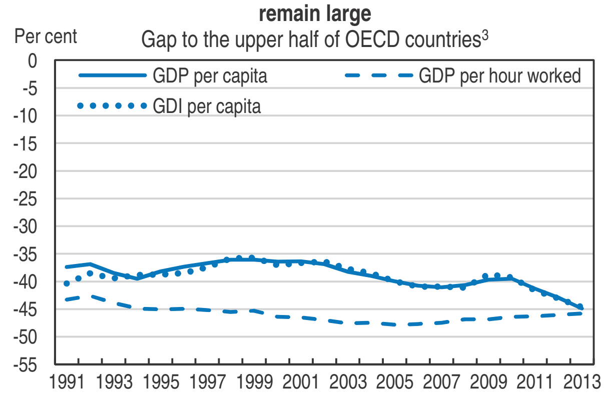
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		0.5	-0.2
Potential labour utilisation		-0.5	-1.1
of which:	Labour force participation rate	0.0	-0.6
	Employment rate[1]	-0.4	-0.6
	Trend employment coefficient[2]	0.0	0.1
Potential labour productivity		1.0	0.8
of which:	Capital deepening	1.5	1.0
	Labour efficiency	-1.4	-0.9
	Human capital	0.9	0.8

B. Gaps in GDP per capita and productivity remain large

Gap to the upper half of OECD countries[3]



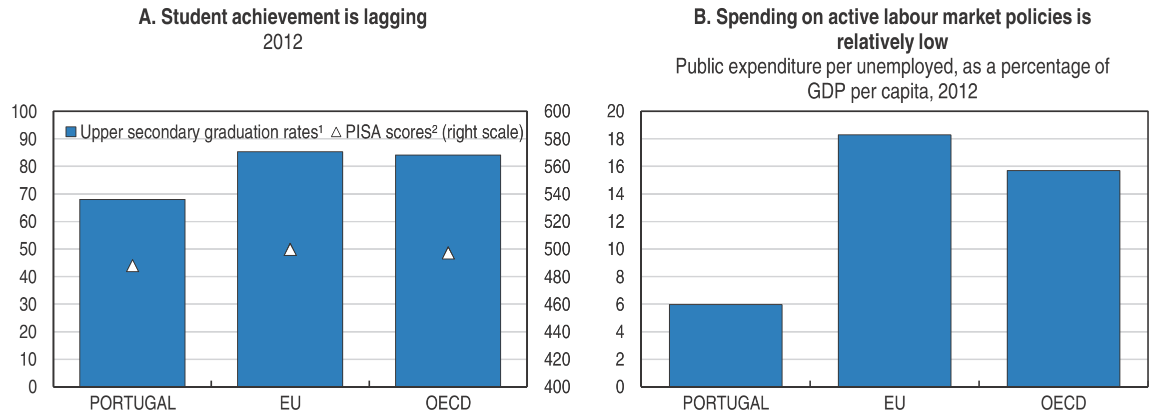
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177930

PORTUGAL

Policy indicators



1. Graduation rate for typical age at upper-secondary level (first-time graduate). 2011 data for Portugal. Due to a statistical feature generated by the "New Opportunities" programme in Portugal, for this country data refer to graduation rates for students under 25 years old.
2. Average of PISA scores in mathematics, science and reading.

Source: Panel A: OECD (2014), *Education at a Glance 2014: OECD Indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eag-2014-en*; and OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*. Panel B: OECD, *Public expenditure and participant stocks on LMP, Economic Outlook and Employment Protection Databases*.

StatLink http://dx.doi.org/10.1787/888933178368

Going for Growth 2015 priorities

Priorities supported by indicators

Improve outcomes and equity in education. Improving educational attainment is essential for a productive and adaptable labour force.

Actions taken: The Authorities have taken steps to expand vocational education and training (VET), provide adult training courses linked to the acquisition of formal qualifications (2013) and are introducing 2-year polytechnic courses (2014).

Recommendations: Continue to scale up VET, adult education and back to school schemes. Better align VET to labour market needs. Reduce grade repetition in secondary education to lower drop-out rates.

Reform the unemployment benefit system and strengthen active labour market policies (ALMP). Long benefit duration for older workers and insufficient job-search assistance increase long-term unemployment and labour market mismatch. Low coverage of unemployment benefit contributes to labour market duality.

Actions taken: New ALMP measures include short training courses, financial support for internships, a hiring subsidy paid to companies that provide training and lower social security contributions for hiring unemployed individuals below 30 or above 45 years (2013).

Recommendations: Further reduce the age-dependency of unemployment benefits and take further action to widen their coverage. Scale up ALMPs including job-search assistance, while closely monitoring programme performance. Focus training on maximising employability gains.

PORTUGAL

Promote wage bargaining at the firm level and avoid administrative extensions of wage agreements. Administrative extension of collective wage agreements can hamper the entry of new firms and hurt productivity and employment.

Actions taken: Job protection for permanent workers was lowered by further (i.e. on top of what was already achieved in 2011-12) reducing severance pay in case of "fair" dismissals (2013). In 2013, the Authorities temporarily imposed conditions that resulted in substantive declines of administrative extensions, but a relaxation of these conditions decided in 2014 is likely to revive extensions for a large majority of sectoral agreements.

Recommendations: Abolish administrative extension of wage agreements permanently and promote wage bargaining at the firm level.

Other key priorities

Strengthen competition in non-manufacturing sectors. Increasing competition in network industries and professional services would lower prices and foster innovation.

Actions taken: A new regulatory framework law was passed in 2013. Several privatisations were carried out in network sectors and some steps were taken to curb excessive electricity generation support.

Recommendations: Phase out electricity generation schemes with guaranteed prices sooner than currently planned and reduce the role of industry associations in regulating entry into professional services.

****Enhance innovation policies and strengthen the link between research and business.****[1] Innovation and knowledge-based capital are key to creating value and strengthening productivity growth.

Recommendations: Improve the links between researchers in universities and the private sector. Consider a better balance between tax credits and direct support in fostering research and development and refunds of tax credits for loss-making firms.

Reform areas no longer considered a priority in *Going for Growth*

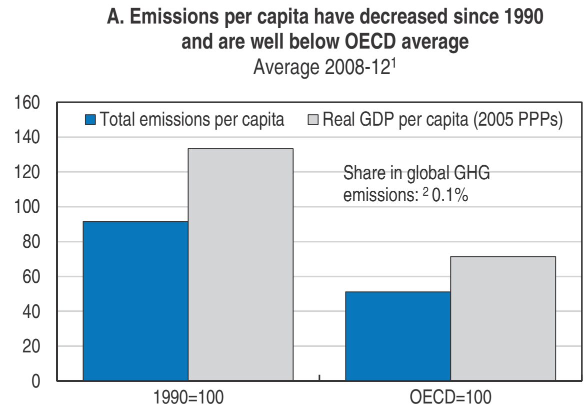
Reduce administrative burdens at the local level. To encourage entrepreneurship and productivity, it was recommended to reduce administrative burdens at the local level, for instance local licensing procedures.

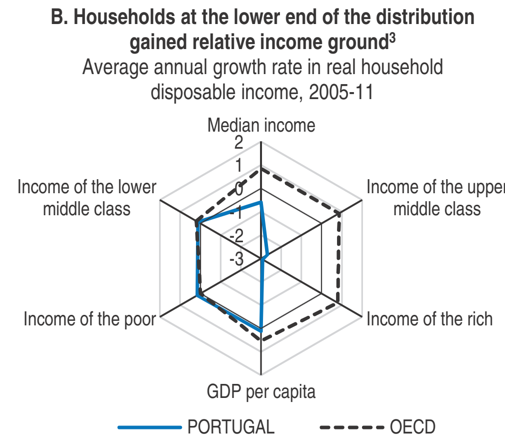
Actions taken: The Authorities have implemented the Zero Authorisation initiative for many services and industrial projects, and eliminated licensing surcharges levied by municipalities. A silence-is-consent rule has also been put in place for many licensing issues.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

PORTUGAL

Beyond GDP per capita: Other policy objectives





1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178795

RUSSIAN FEDERATION

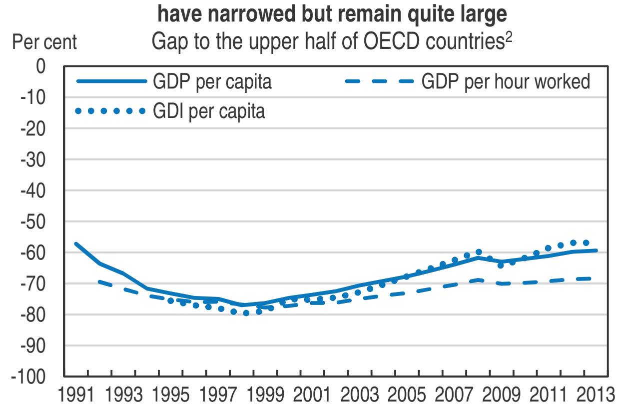
- While the GDP per capita gap relative to the upper half of OECD narrowed rapidly until the crisis, the convergence process slowed down afterwards, due both to a decline in potential growth and cyclical factors. The per capita GDP gap is mainly driven by the productivity gap while the employment rate remains above the OECD average.
- Significant improvement was achieved to encourage healthy lifestyles and to strengthen efficiency and effectiveness of health care policies. Progress has been also made in reducing red tape, fighting corruption and supporting private sector innovation, but more efforts are needed.
- Strengthening activation and education policies would spur labour productivity by raising skills and improving matching in the labour market. Innovation policies are critical to ensure a transition towards domestically-driven and resource-independent growth. Improving the business environment would spur productivity by boosting entrepreneurship and innovation.
- Ensuring adequate income support for the unemployed in association with activation and training programmes would reduce income inequality by raising incentives to invest in human capital and improving the quality of jobs.

Growth performance indicators

A. Average annual growth rates
Per cent

	2003-08	2008-13
GDP per capita	7.5	0.8
Labour utilisation[1]	1.7	-0.2
Labour productivity	5.7	1.1

B. Gaps in GDP per capita and productivity have narrowed but remain quite large
Gap to the upper half of OECD countries[2]



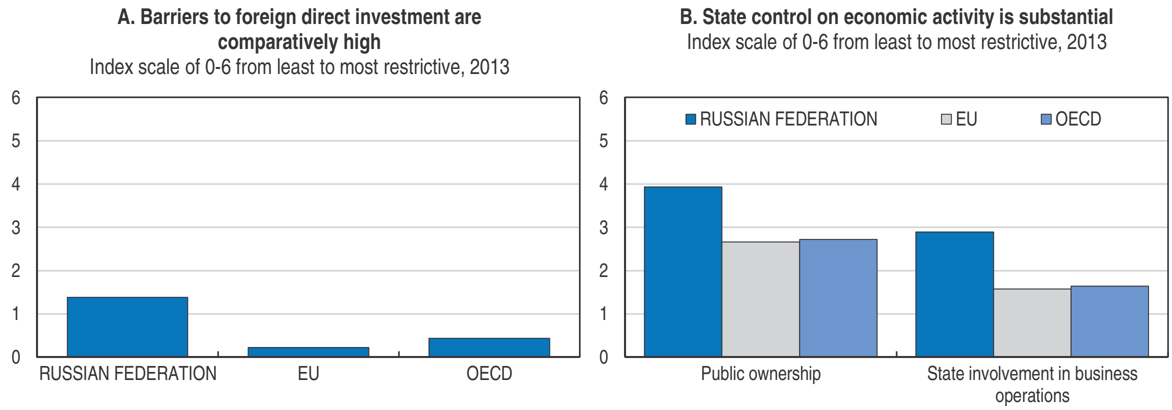
1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and Productivity Databases*; World Bank, *World Development Indicators (WDI) Database*; and ILO, *Key Indicators of the Labour Market (KILM) Databases*.

StatLink http://dx.doi.org/10.1787/888933178036

RUSSIAN FEDERATION

Policy indicators



Source: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178466

Going for Growth 2015 priorities

Priorities supported by indicators

Reduce state control over economic activity and other barriers to competition. Restrictive product market regulation, especially via the pervasive role of the state in the economy, holds down innovation and productivity.

Actions taken: Regulatory impact assessment (RIA) has been extended at an early stage of new regulation, i.e. when a draft law is proposed. Two thousands and five hundred businessmen were amnestied as of March 2014. A May 2013 federal law granted business ombudsman the status of public body. The ambitious privatisation plans for 2014-16 were substantially scaled down in June 2013.

Recommendations: Continue reducing administrative barriers, and widen federal initiatives to regional and local levels. Accelerate privatisation of state-owned banks and enterprises (SOEs). Further improve the governance of SOEs and foster a level playing field between public and private companies. Extend regulatory impact assessments to legislative draft considered by the State Duma.

Lower barriers to foreign direct investment. A more liberal foreign direct investment regime would enhance competition and innovation, thereby productivity growth.

Actions taken: Since October 2013, Russian legislation on foreign investment is conforming to the OECD standards. International agreements not based on the principle of reciprocity are facilitated.

Recommendations: To reap the benefits from WTO accession, refrain from introducing administrative entry barriers. Shorten the list of strategic sectors with prior approval required for foreign investment and streamline the approval process.

RUSSIAN FEDERATION

Raise the effectiveness of innovation policy. Raising innovation capacity would increase productivity growth.

Actions taken: The law on the reorganisation of the Russian Academy of Sciences (RAS), signed in April 2014, should increase efficiency through integration with other specialised academies and by reducing non-research tasks. A Russian scientific fund that aims to support leading research teams was created in November 2013. Direct support to innovation – and to investment in infrastructure – by SMEs will increase over the 2014-16 period.

Recommendations: Continue broad-based support for innovation and the adoption of new technologies. Finalise the reform of public R&D by shifting more research from the RAS to universities, increasing the share of competitive grant funding and streamlining state-owned branch research institutes. Evaluate innovation policies more systematically. Support private-sector innovation activities through universally applied tax credits.

Other key priorities

Raise the quality of public administration. More efficient and accountable public administration would contribute to faster economic growth.

Actions taken: The second phase of the OECD Anti-Bribery Convention was implemented in October 2013. Since January 2013, civil servants are required to rotate every 3-5 years. Since September 2013, senior officials and their family are not allowed to hold financial assets in foreign banks. Since April 2013, public institutions and SOEs are required to treat cases of violation of the Code of Ethics and conflict of interest in a commission.

Recommendations: Continue the anti-corruption campaign with a stronger focus on transparency and accountability of the public sector. Reduce potential for corruption by minimising the need for subjective decision-making by officials. Improve legal protection of whistleblowers and do not restrict the scope for media and NGOs to publicise violation of the law. Strengthen judicial independence trough greater transparency in appointment and promotion processes, better pay and rotation of judges.

Ensure adequate income support for jobseekers in association with activation and training measures.*[1] An integrated system of unemployment benefits and active labour market and training policies would raise the effectiveness of job search and matching between individuals and jobs. This would spur human capital accumulation and labour productivity.

Recommendations: Scale up spending on ALMPs, in particular on training and job-search support. Raise temporary income support to unemployed to allow them devoting more resources to job search.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

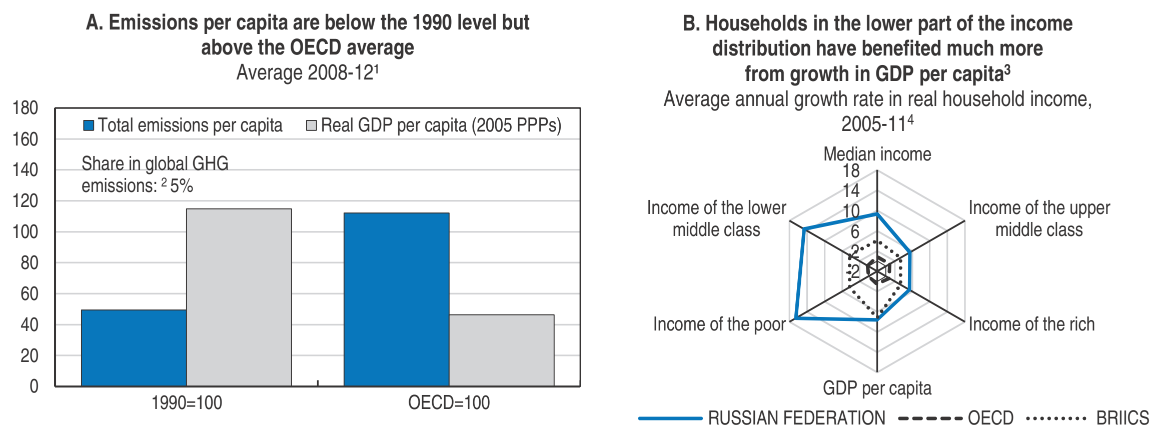
RUSSIAN FEDERATION

Reform areas no longer considered a priority in *Going for Growth*

Reform the health care system. In order to raise health outcomes, it was recommended to encourage healthy lifestyles and to further increase public funding while ensuring cost-efficiency.

Actions taken: Since June 2013, smoking is prohibited in public places. The Ministry of Health is detached to a separate body since June 2014. Since 2014 payment of outpatient care has been made more efficient by taking into account not only the volume of services (e.g. the number of visits) but also other characteristics (e.g. the number of patients, their age and sex, morbidity rates and the type of assistance provided).

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. Due to data limitations, income levels across the distribution are derived by combining quintile income shares from nationally representative household surveys and gross national income of the household sector from the national accounts. This implies limited comparability with OECD countries' data. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-08 for the Russian Federation.

Source: Panel A: OECD, *Energy (IEA) Database*; World Bank, *World Development Indicators (WDI) Database*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: World Bank, *World Development Indicators (WDI) Database*.

StatLink http://dx.doi.org/10.1787/888933178892

SLOVAK REPUBLIC

- The rapid catch-up relative to the upper half of OECD countries has continued thanks to strong labour productivity. However, labour utilisation is still lagging behind and potential employment growth stalled.
- Some progress has been achieved in the area of education, by increasing teachers' salaries and the quality of pre-primary education as well as in product market regulation, by reducing some barriers to entrepreneurship. More needs to be done to scale up and increase the efficiency of public employment services, activation and training programmes.
- Strengthening jobseekers' activation, especially on training and job-search support, removing obstacles to labour mobility and encouraging female labour force participation would increase overall labour utilisation. Reducing barriers to competition, especially in non-manufacturing industries, and strengthening innovation and education outcomes would increase productivity.
- Activation programmes and more inclusive education policies would reduce income inequality by improving employability and integration of most vulnerable groups, in particular the Roma and youth. Those policies would also reduce the relatively high regional income disparity.

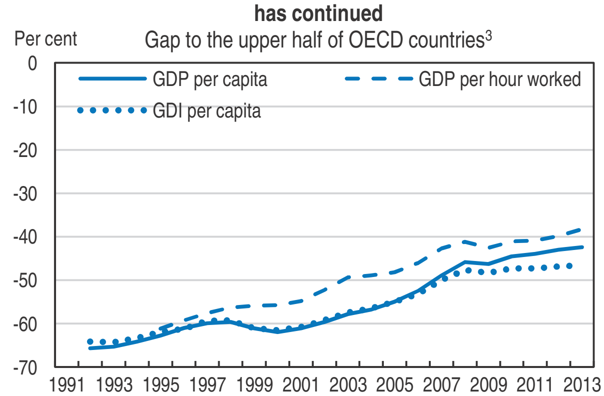
Growth performance indicators

A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		4.8	1.9
Potential labour utilisation		0.9	-0.8
of which:	Labour force participation rate	-0.2	-0.2
	Employment rate[1]	1.4	-0.7
	Trend employment coefficient[2]	-0.3	0.1
Potential labour productivity		3.9	2.7
of which:	Capital deepening	-0.6	0.3
	Labour efficiency	4.3	2.2
	Human capital	0.2	0.2

B. Convergence in GDP per capita and productivity has continued



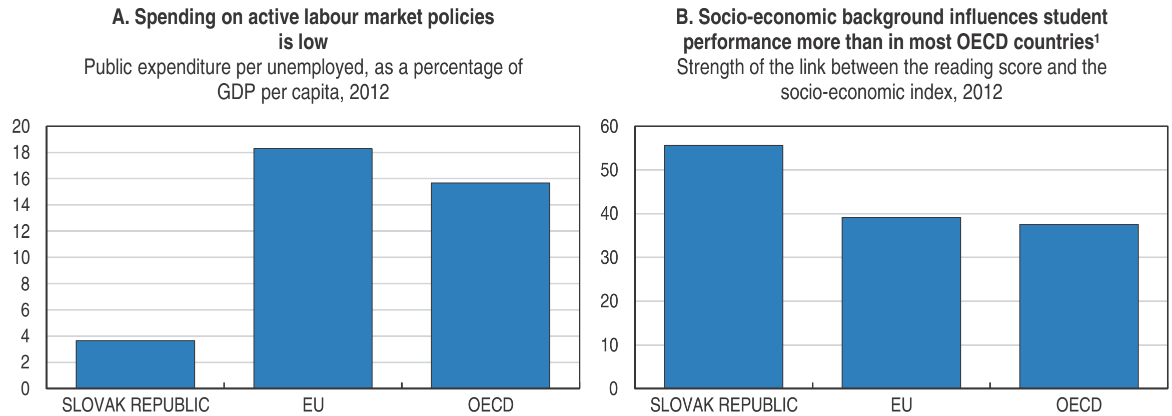
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177945

SLOVAK REPUBLIC

Policy indicators



1. Defined as the estimated coefficient from the country specific regression of PISA reading performance on corresponding index of economic, social and cultural status (ESCS).

Source: Panel A: OECD, *Public expenditure and participant stocks on LMP and Economic Outlook Databases*. Panel B: OECD (2013), *PISA 2012 Results: Excellence through Equity (Volume II): Giving Every Student the Chance to Succeed*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201132-en*.

StatLink http://dx.doi.org/10.1787/888933178379

Going for Growth 2015 priorities

Priorities supported by indicators

Improve funding, equity and effectiveness of the education system. PISA test scores are below the OECD average and the school-to-job transition is weak. Low educational quality is associated with low equality of opportunities, especially for Roma children. This hampers productivity, labour utilisation and equity.

Actions taken: Pilot projects of secondary vocational education including workplace training (dual education) were launched in 2013. A new Act on Vocational Education and Training is planned for December 2014.Teachers' wages have been increased but remain among the lowest of OECD countries. Several kindergartens have been involved in European funded projects aimed at promoting the inclusion of Roma children in pre-school education. The 2015 Budget approved the allocation of EUR 5 million funding for extending or reconstructing pre-school education facilities.

Recommendations: Expand pilot projects of vocational education in secondary institutions and develop professional tertiary education programmes. Publish information on labour market outcomes of graduates on a regular basis. Extend tuition fees in tertiary education backed-up by income-contingent repayment loans. Reduce inequality of opportunity, in particular for Roma children, notably by strengthening their enrolment in pre-school education and reducing their enrolment in special schools.

Strengthen policies to promote activation, life-long training and labour mobility. Low labour mobility and high long-term unemployment depress both labour utilisation and productivity.

Actions taken: Reforms initiated in May 2013 have streamlined active labour market programmes and set preconditions to increase the client-orientation of public employment services (PES). The launch of a web portal and development of a back office IT system have contributed to improving PES capacities.

Recommendations: Strengthen the resources of PES. Develop individualised job-search support. Expand training measures for the unemployed. Narrow public work programmes. Target wage subsidies for youth to the most vulnerable. Promote participation of workers to lifelong learning. Remove obstacles to the expansion of a private residential rental market, and phase-out financial support, such as subsidised loans, to homeownership.

Reduce barriers to female labour force participation. Women with young children have low employment rates.

Actions taken: The quality of educational services for children aged from 3 to 6 years increased but access to childcare for children below 3 years old remains one of the lowest among EU countries.

Recommendations: Expand affordable and high quality childcare facilities. Shorten the duration of parental leave entitlements. Remove fiscal disincentives to work for second earners notably by cutting the tax allowance for non-working spouses.

Other key priorities

Improve the business environment and reduce regulatory barriers to competition. Existing impediments to competition, administrative burdens and inefficiencies in the judicial system limit productivity growth.

Actions taken: The introduction of a "silence is consent" procedure and the creation of single contact points in 2013 to handle notifications and licenses via the Internet have simplified the process of opening and operating a business.

Recommendations: Resume the privatisation process of remaining public stakes in network industries. Strengthen competition in retail trade and abolish compulsory chamber membership for professional services while maintaining required standards of professional qualifications. Simplify tax compliance and procedures for firms involved in projects financed by EU structural funds. Renew the fight against corruption and improve the efficiency of the judicial system.

Improve the innovation support framework. Low research and development (R&D) expenditure and innovation activity in the business sector constrain the capacity to adopt new technology and hamper productivity growth.

Actions taken: The Smart Specialization Strategy, adopted in November 2013, should promote co-operation between business and academia. The JEREMIE initiative (aimed at providing funding to innovative SMEs) has continued for the 2014-20 programming period.

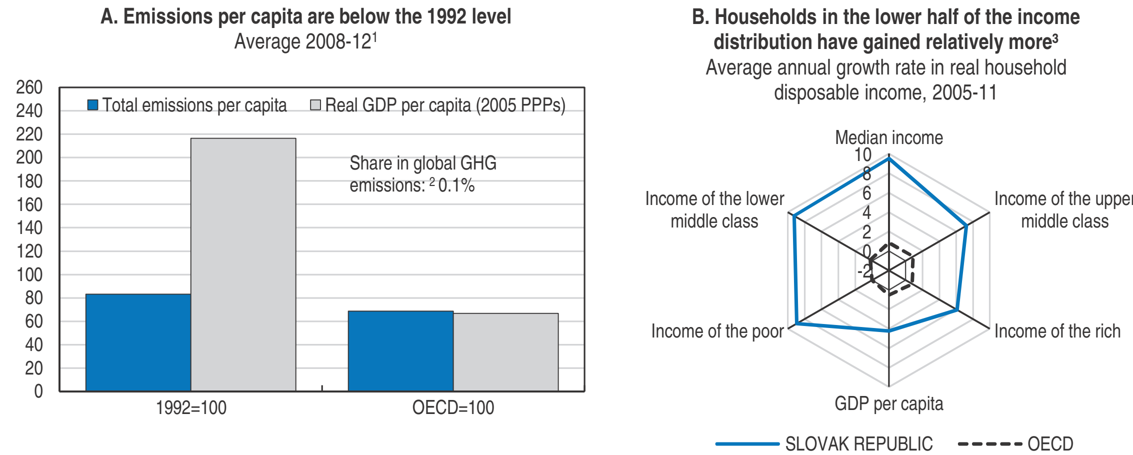
Recommendations: Encourage co-operation between public and private R&D institutions, especially through clusters. Encourage business R&D by introducing R&D tax credits. Continue promoting access to venture capital. Facilitate the adoption of new technologies of firms in lagging regions, in particular by providing innovation vouchers and support to local clusters. Continue developing digital literacy.

Reform areas no longer considered a priority in *Going for Growth*

For the Slovak Republic, all priority areas from the 2013 issue of *Going for Growth* are maintained.

SLOVAK REPUBLIC

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178803

SLOVENIA

- After having narrowed steadily prior to the crisis, the gap in GDP per capita *vis-à-vis* the upper half of OECD countries has widened since 2008, reflecting a decline in labour utilisation and slowdown in labour productivity growth.
- Reform momentum has picked-up in the past two years, notably with the employment protection reform, which has been contributing to reduce labour market duality. The Parliament approved a list of 15 state-owned enterprises to be privatised and a new Slovenia Sovereign Holding to manage state assets has been established, but progress in reducing state involvement in the economy has been slow. A pension reform increased the statutory age for retirement, but further reform is needed.
- Reducing state involvement in the economy, improving tertiary education outcomes and boosting innovation would help raise labour productivity and long-term growth. Reform of unemployment benefits, social assistance and other transfers for the unemployed and inactive persons can increase work incentives; progress in this area would also strengthen fiscal sustainability.
- Future rises in the already high minimum wage should be moderated to improve the labour market inclusion of younger and low-skilled workers.

Growth performance indicators

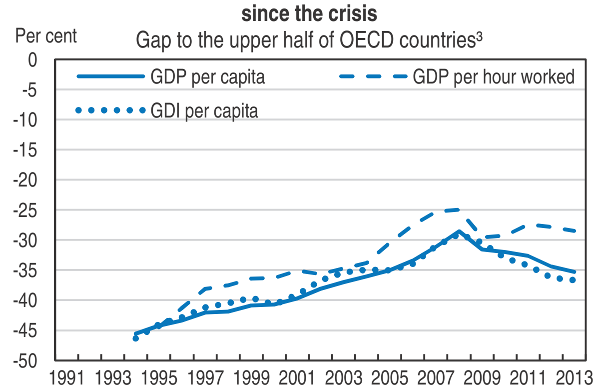
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		2.4	0.1
Potential labour utilisation		0.2	-0.9
of which:	Labour force participation rate	0.1	-0.6
	Employment rate[1]	0.2	-0.5
	Trend employment coefficient[2]	-0.1	0.2
Potential labour productivity		2.2	1.0
of which:	Capital deepening	1.0	0.9
	Labour efficiency	0.8	-0.3
	Human capital	0.4	0.4

B. The gap in GDP per capita has widened since the crisis

Gap to the upper half of OECD countries[3]



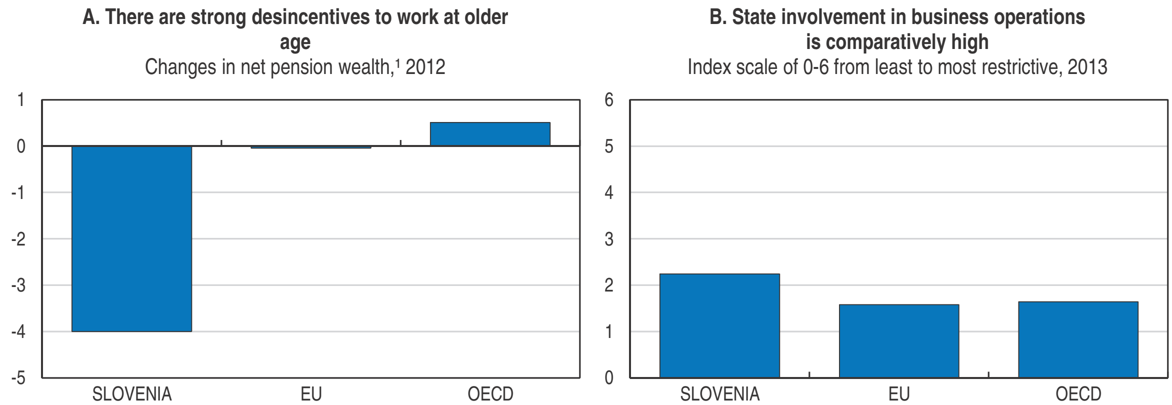
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177957

SLOVENIA

Policy indicators



1. The change in pension wealth is a measure of the incentive to remain in the workforce for an additional period. It measures the increase in the level of pension entitlement one gains by remaining in employment for an additional year. The calculation is the annual average increase in males' pension wealth when working from age 60 to 64. Net pension wealth is the present value of the flow of pension benefits, taking account of the taxes and social security contributions that retirees have to pay on their pensions. It is measured and expressed as a multiple of gross annual individual earnings in the respective country. See OECD (2013), *Pensions at a Glance 2013: OECD and G20 Indicators* for additional details, OECD Publishing, Paris, *http://dx.doi.org/10.1787/pension_glance-2013-en*.

Source: Panel A: *OECD Pension Models*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178388

Going for Growth 2015 priorities

Priorities supported by indicators

Raise the statutory retirement age and reduce disincentives to work at older ages. The old-age pension system does not sufficiently incentivise older workers to remain active.

Actions taken: Effective retirement ages are expected to increase by around two and a half years to 62 for women and by nearly a year to 63 for men by 2020, following the 2013 pension reform. With the same reform, pensions' indexation has been cut from 100% of gross wage growth to 60% of gross wage growth and 40% of inflation.

Recommendations: Adopt a more ambitious pension reform with a view to ensuring both sustainability and adequacy of the system, for instance by linking the statutory retirement age to gains in life expectancy and encouraging private contributions to the second pillar of the pension system. Give more weight to inflation in the pension benefit indexation formula. Limit access to early retirement.

Limit wage growth for minimum wage workers. The statutory minimum wage relative to the median wage is high by OECD standards, and can be a barrier to employment of youth and low-skilled workers.

Actions taken: No action taken.

Recommendations: Limit the growth in the minimum wage with a view to reducing progressively its level relative to the median wage.

SLOVENIA

Reduce state involvement in the economy. Public ownership and control of enterprises is widespread and corporate governance weak, reducing technological progress and foreign direct investment inflows.

Actions taken: A Slovenia Sovereign Holding (SSH) became operational in 2014 to centralise the management of state-owned assets and facilitate privatisation, but the government and the Parliament have yet to agree on an asset management strategy. The Parliament approved a list of 15 state-owned enterprises to be privatised, including one state-owned bank and a major telecom provider. Four companies have been sold already while seven are in the privatisation process.

Recommendations: Reduce the scope of public ownership in the economy including in network industries. Devise a rigorous and transparent regime for determining which state assets should remain in public hands and ensure autonomy of the board and management of the SSH. Privatise state-owned banks to bolster the efficiency and stability of the banking sector. Allow competition authorities to be completely independent and provide them with adequate resources.

Other key priorities

****Reform the unemployment benefit system.****[1] Despite a recent cut in unemployment benefits, high average effective tax rates, partly driven by generous social transfers, hamper the transition of inactive and unemployed persons to the labour market.

Recommendations: Continue to gradually cut the combined generosity of unemployment benefits, social assistance and other transfers for the unemployed and inactive persons to increase work incentives.

Improve tertiary education outcomes and boost innovation. Tertiary completion rates are low, weighing on human capital formation and productivity. The R&D framework provides weak incentives to business innovation.

Actions taken: Student work, which benefits from a preferential tax and regulatory treatment, has been made somewhat less attractive to employers and students with the 2013 labour market reform. This can indirectly incentivise students toward earlier completion of studies.

Recommendations: Introduce tuition fees in public higher education institutions, along with student loans with income-contingent repayment. Tie access to student benefits to adequate progress in studies. Enhance autonomy in universities and public research organisations. Strengthen their links with the private sector.

Reform areas no longer considered a priority in *Going for Growth*

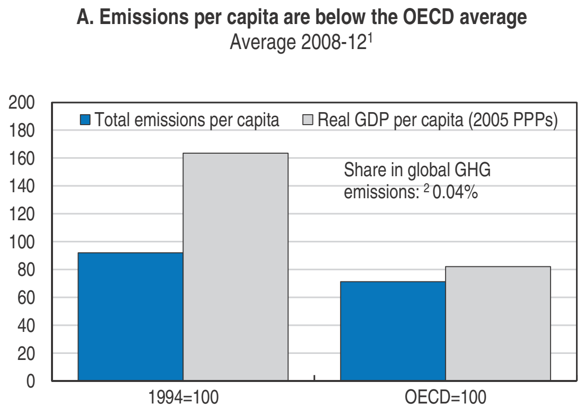
Ease employment protection legislation. In order to reduce labour market duality, it was recommended to narrow the gap in job protection between regular and temporary contracts.

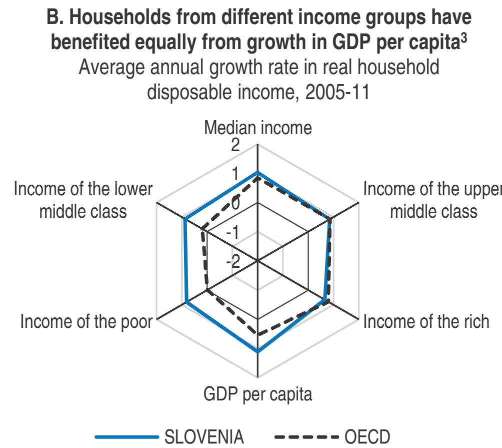
Actions taken: A new Employment Relations Act that entered into force in April 2013 was a bold step in fostering convergence of termination costs across contracts, thereby gradually reducing duality. As a result, Slovenian legislation on this dimension is now just slightly more rigid than the average OECD country.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

SLOVENIA

Beyond GDP per capita: Other policy objectives





1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178819

SOUTH AFRICA

- The narrowing of the income gap *vis-à-vis* leading OECD economies has almost halted since 2007, reflecting a sharp drop in labour utilisation and a minor slowdown in productivity growth.
- Progress has been made in strengthening active labour market policies to tackle youth unemployment with the introduction of a wage subsidy for young workers in early 2014.
- Enhancing competition in network industries and reducing barriers to entrepreneurship will stimulate labour demand. In association with reforms in the area of minimum wages and wage bargaining, this would boost employment, especially of low-skilled workers. Improving educational outcomes would facilitate moving production up the global value chain, boosting economic growth.
- A more equitable and efficient education system would bolster productivity growth while helping to reduce high youth unemployment, inequality and social exclusion.

Growth performance indicators

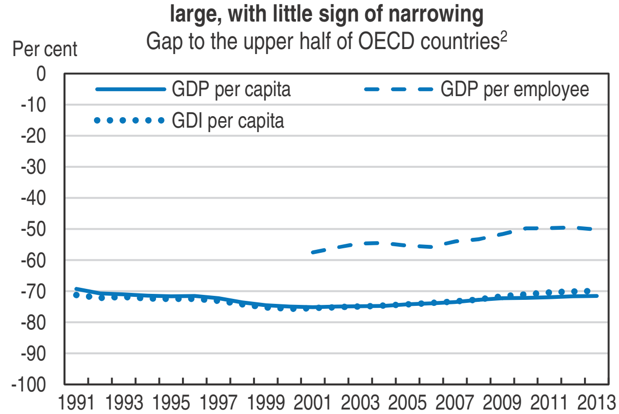
A. Average annual growth rates

Per cent

	2003-08	2008-13
GDP per capita	3.5	0.5
Labour utilisation[1]	1.9	-0.9
Labour productivity	1.6	1.5

B. Gaps in GDP per capita and productivity remain large, with little sign of narrowing

Gap to the upper half of OECD countries[2]



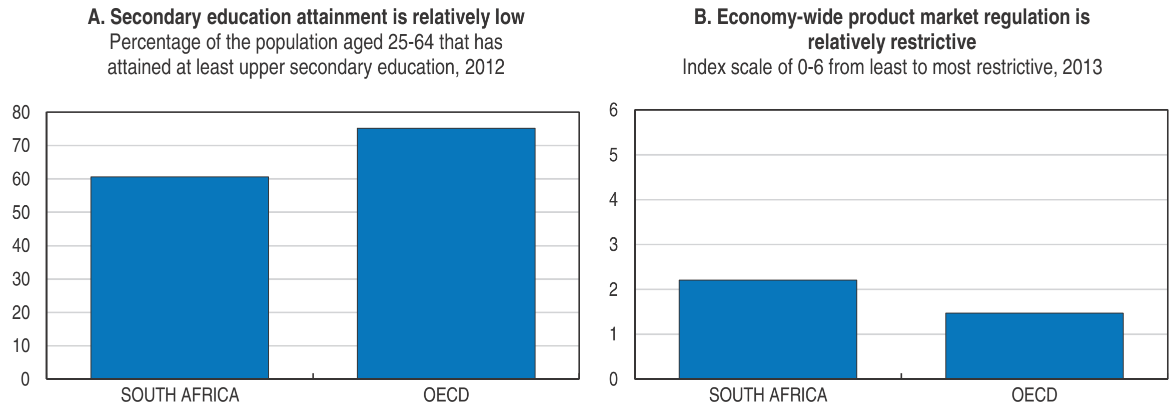
1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per employee and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts Database*; World Bank, *World Development Indicators (WDI) Database* and Statistics South Africa.

StatLink http://dx.doi.org/10.1787/888933178082

SOUTH AFRICA

Policy indicators



Source: Panel A: OECD (2014), *Education at a Glance 2014: OECD Indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eag-2014-en*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178514

Going for Growth 2015 priorities

Priorities supported by indicators

Enhance competition in network industries. More intense competition in network industries would ease supply bottlenecks and stimulate productivity growth.

Actions taken: A report on state-owned enterprises was produced by the Presidential Review Committee and accepted by the Cabinet in April 2013. An inter-ministerial committee is planned to guide implementation of the recommendations in the review.

Recommendations: Rule out granting state-owned enterprises exemptions from the competition laws. Secure effective separation of generation, transmission and distribution of electricity. Strengthen the independence of network regulators. Unbundle the divisions of the state-owned transport conglomerate Transnet and open access to public infrastructure to private service providers.

Reduce barriers to entrepreneurship. Stimulation of entrepreneurship would bolster employment and productivity growth.

Actions taken: In 2013, guidelines for reducing municipal red tape were published. In 2014, a Ministry for Small Business Development has been established.

Recommendations: Significantly reduce red tape and other administrative burdens on business operations. Reduce the severity of bankruptcy rules, in particular severance payments, to facilitate second chances for entrepreneurs. Undertake regulatory impact assessments systematically for all new legislation and review existing legislation with a view to reducing regulatory burden.

Raise efficiency and equity in education. Improving equity and quality of education would boost human capital accumulation and reduce the high levels of inequality.

Actions taken: The National Education Collaboration Trust was launched in 2013 to work with civil society to improve the professionalisation of teaching and to increase classroom resources.

Recommendations: Improve teacher training, enhance accountability and monitoring of school leadership. Teach English as a second language earlier, while maintaining mother-tongue instruction for longer. Upgrade infrastructure. Gradually phase out school fees in the public school system. Expand vocational education and training.

Other key priorities

Strengthen active labour market policies to tackle youth unemployment. Extremely high youth unemployment creates important hysteresis problems, erodes human capital and aggravates inequality.

Actions taken: In April 2013, the government and social partners signed the Youth Employment Accord, setting out joint commitments to prioritise youth employment and skills development. At the same time, the President signed the Employment Services Act, bolstering public employment services including provisions for young job-seekers. In addition, the Youth Enterprise Development Strategy was established to increase youth entrepreneurship. In early 2014, a youth wage subsidy was introduced, which should stimulate demand for younger workers.

Recommendations: Expand placement assistance for young job-seekers and support for young entrepreneurs focused on management training.

Reform minimum wages and wage bargaining systems. Labour market reforms encouraging wage flexibility could boost employment, particularly among small- and medium-sized enterprises and among youth and low-skilled workers.

Actions taken: No action taken.

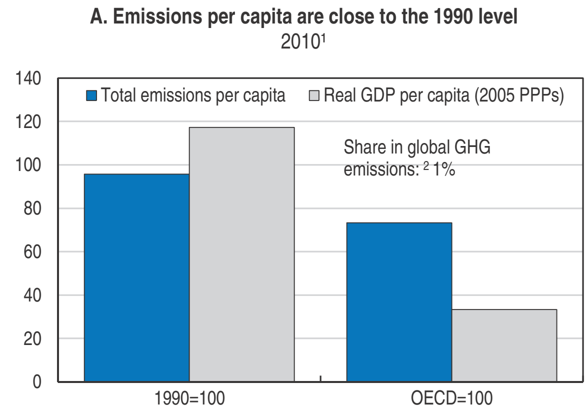
Recommendations: Weaken administrative extension of collective bargaining in sectors covered by bargaining councils. Provide indicative guidelines for wage settlements at a centralised level consistent with inflation targets. Introduce age-differentiation of minimum wages, preferably with a simplified link to training.

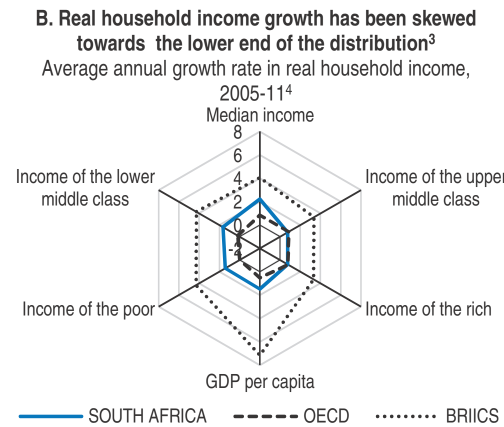
Reform areas no longer considered a priority in *Going for Growth*

For South Africa, all priority areas from the 2013 issue of *Going for Growth* are maintained.

SOUTH AFRICA

Beyond GDP per capita: Other policy objectives





1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. Due to data limitations, income levels across the distribution are derived by combining quintile income shares from nationally representative household surveys and gross national income of the household sector from the national accounts. This implies limited comparability with OECD countries' data. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2006-11 for the South Africa.

Source: Panel A: OECD, *Energy (IEA) Database*; World Bank, *World Development Indicators (WDI) Database*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: World Bank, *World Development Indicators (WDI) Database*.

StatLink http://dx.doi.org/10.1787/888933178940

SPAIN

- The income gap *vis-à-vis* leading OECD economies continues to widen, reflecting persistently high unemployment. Productivity has improved but this reflects large employment losses.
- Progress has been made in reforming education, the key being now a swift and effective implementation. Recent reforms have been introduced to reduce the fragmentation of the regulatory framework and to raise the efficiency of active labour market policies.
- Strengthening active labour market policies and further raising the responsiveness of wages to labour market conditions would increase employment, especially among the low skilled. Improving access to, and relevance of, tertiary education and reducing duality would improve the matching of workers to jobs and increase productivity. Lowering entry barriers in services would foster resource reallocation and create new jobs.
- Easing access and expanding opportunities to higher education, including vocational education and training, and making associated programmes more attuned to the labour market, would increase employability among young workers. More effective active labour market policies would help long-term unemployed get back to work, hence reduce inequality and risks of poverty and social exclusion.

Growth performance indicators

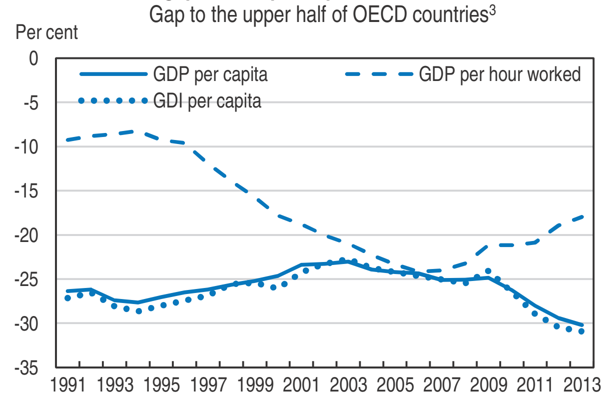
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.5	-0.1
Potential labour utilisation		0.7	-1.0
of which:	Labour force participation rate	1.3	0.1
	Employment rate[1]	-0.2	-1.0
	Trend employment coefficient[2]	-0.4	-0.1
Potential labour productivity		0.8	0.9
of which:	Capital deepening	0.9	0.9
	Labour efficiency	-1.0	-0.7
	Human capital	0.9	0.7

B. The gap in GDP per capita has further widened

Gap to the upper half of OECD countries[3]



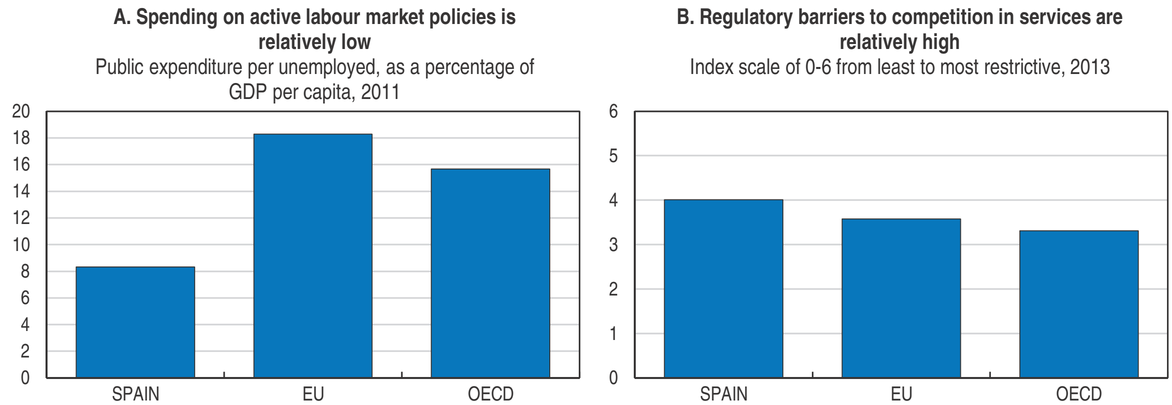
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177967

SPAIN

Policy indicators



Source: Panel A: OECD, *Public expenditure and participant stocks on LMP and Economic Outlook Databases*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178397

Going for Growth 2015 priorities

Priorities supported by indicators

Improve access to higher education and ensure that associated programmes adapt to labour market needs. School drop-out rates are high. Higher education programmes are ill-adapted to job market needs, reducing workers' employability and productivity.

Actions taken: A major educational reform has been introduced and will enter into force gradually in 2014-15 and 2016-17 academic years. Measures include establishing external standard evaluations and basic vocational tracks, and allowing for an earlier choice of educational curriculum. University tuition fees have been raised and eligibility for grants now takes into account academic achievement. The number of beneficiaries has increased but the average grant amount has decreased.

Recommendations: Make school-based vocational education more practice-oriented and raise employers' involvement in training design. Increase specialisation in universities. Do not reduce the average amount of grants until other financing alternatives, such as loans with income-contingent repayments, are available. Provide more training opportunities for adults and focus on encouraging participation by the low-skilled and older people.

Strengthen active labour market policies. Without effective activation and training, long-term unemployed are at risk of labour market and social exclusion.

Actions taken: A new activation strategy has been set-up in 2013 and 2014, linking the allocation of funding from central government to regional results, encouraging the systematic use of profiling by regionally-run agencies, creating a single nationwide portal for job-search, and foreseeing the involvement of private providers in delivering job-search assistance.

Recommendations: Boost resources and efficiency of public employment services. Strengthen activation and extend training measures for the unemployed. Introduce systematic evaluation of training schemes and allocate funding towards those schemes that are the most effective at increasing employability.

Make wages more responsive to economic and firm-specific conditions. Allowing wages to respond more swiftly to economic conditions would help preserve jobs in the event of adverse shocks.

Actions taken: No action taken.

Recommendations: Evaluate the effects of the 2012 wage bargaining reform. Based on the findings from this evaluation, as a first option gradually increase representation requirements for both unions and firms for new sectorial collective agreements with a view to making the bargaining process more inclusive. As a second option, require firms to opt-in rather than allowing firms to opt-out from new sectorial agreements.

Other key priorities

Reduce the gap in job protection between permanent and temporary contracts. A high level of protection for permanent relative to temporary contracts leads to persistent labour market duality, which increases the frequency of unemployment spells, especially for young workers. It also reduces productivity.

Actions taken: No action taken.

Recommendations: Reform employment protection legislation so as to harmonise key provisions across different types of contracts. In particular, severance pay should be uniformly set so that for all types of contracts it is initially low and then gradually increasing with tenure.

Lower entry barriers in non-manufacturing industries. Entry barriers hold back resource reallocation, productivity and job creation.

Actions taken: New legislation (Law of market unity) is being implemented to reduce the fragmentation of the regulatory framework across regions. The new Ground Transport Law (2013) affects both passengers and freight transport. It aims at reducing licensing requirements and, more broadly, administrative procedures, as well as increasing transparency and legal security. The liberalisation of passenger rail services has gradually started.

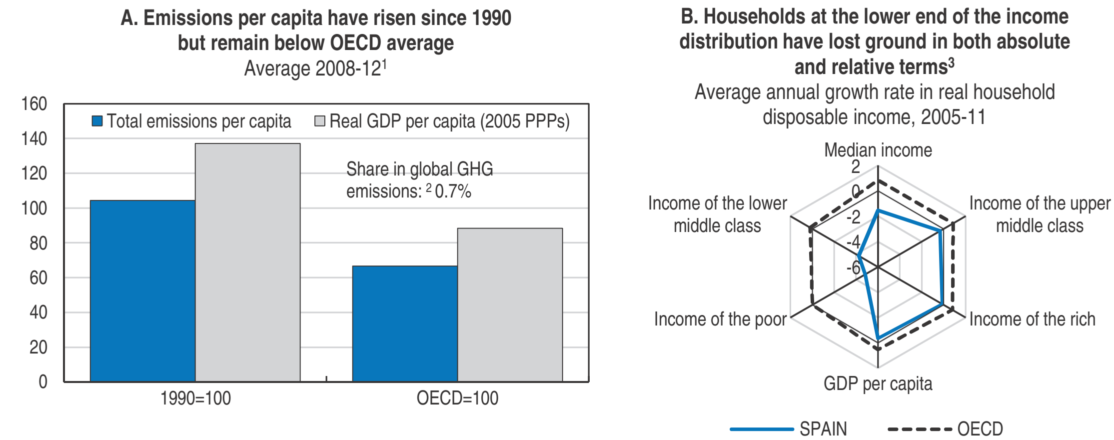
Recommendations: Reduce the number of professions requiring membership of a professional body and the cost of membership. Improve competition in the retail electricity market. Reduce entry barriers in rail and maritime transport and in motor fuel markets. Pursue a full and swift implementation of the Law of market unity.

Reform areas no longer considered a priority in *Going for Growth*

For Spain, all priority areas from the 2013 issue of *Going for Growth* are maintained.

SPAIN

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178820

SWEDEN

- GDP per capita is lower than in leading OECD economies due to lower productivity, but the gap continues to narrow. Labour force participation and employment grow at healthy rates despite an ageing population, while labour productivity growth has slowed.
- The government is taking initiatives to improve the performance of the education system. Macro-prudential policies are being introduced to limit household debt-related risk. In contrast little has been done to improve the supply-side of the housing market and to ease job protection.
- Marginal income tax cuts would strengthen work incentives. Easing employment protection on permanent workers and rigidities in the housing market would encourage labour mobility and boost productivity. Enhanced efficiency in education would foster human capital accumulation.
- Earlier intervention would improve employment and earning prospects for the long-term sick and disabled, thereby reducing inequalities and supporting growth. Reducing protection of permanent workers would facilitate the integration of vulnerable groups into the workforce.

Growth performance indicators

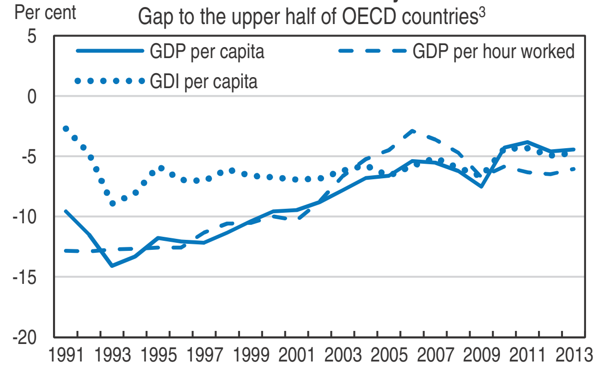
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.5	1.0
Potential labour utilisation		-0.1	0.0
of which:	Labour force participation rate	0.1	0.2
	Employment rate[1]	0.0	-0.1
	Trend employment coefficient[2]	-0.2	-0.1
Potential labour productivity		1.6	0.9
of which:	Capital deepening	-0.1	-0.1
	Labour efficiency	1.4	0.6
	Human capital	0.3	0.3

B. Gaps in GDP per capita and productivity have been stable recently

Gap to the upper half of OECD countries[3]



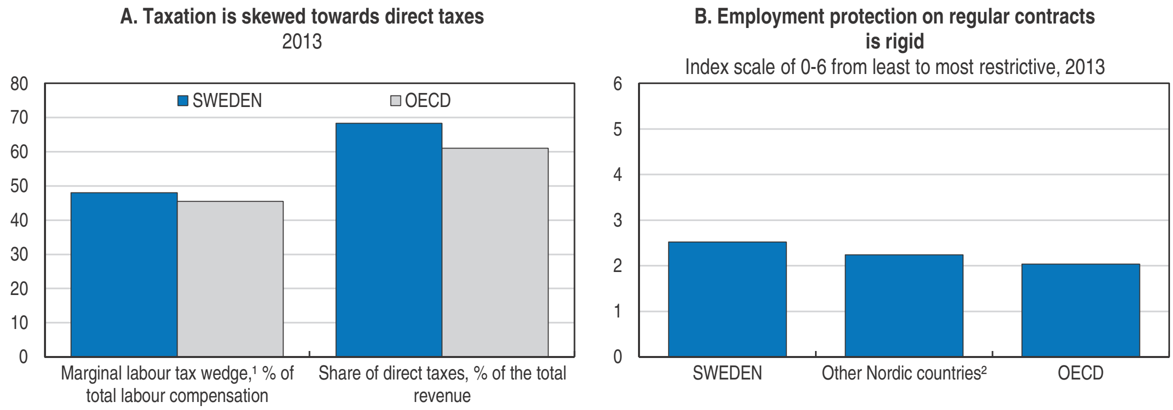
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177979

SWEDEN

Policy indicators



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Marginal labour tax wedge for a single person at 100% of average earnings without child.
2. Average of Denmark, Finland and Norway.

Source: Panel A: OECD, *Revenue Statistics and Taxing wages Databases*. Panel B: OECD, *Employment Protection Database*.

StatLink http://dx.doi.org/10.1787/888933178402

Going for Growth 2015 priorities

Priorities supported by indicators

Reform sickness and disability benefit schemes. Late intervention for people on long-term sickness leave and disability benefits increases the risk of exclusion from the labour market.

Actions taken: No action taken.

Recommendations: Assess the remaining work capabilities of individuals at risk of long-term sickness or disability earlier. Promote the return to work by enhancing co-operation between the social insurance agency and the public employment service.

Reduce job protection on permanent contracts. Job protection on permanent contracts is the most stringent among Nordic countries, raising concerns about labour reallocation, productivity growth and exclusion of vulnerable groups.

Actions taken: No action taken.

Recommendations: Reduce stringency in areas that unduly hinder productivity enhancements, such as the "first in, last out" rule, obligations related to internal reassignment and the priority for dismissed workers to be re-hired following justified individual or collective dismissal. Engage with social partners to reform employment regulations in those industries in which they are tightened by collective agreements.

Reduce marginal tax rates on labour income and shift the tax structure towards property and consumption. High marginal taxes on above-average income reduce incentives to work longer and weaken productivity growth.

Actions taken: No action taken.

Recommendations: Cut marginal tax rates on above average earnings by shifting part of the tax burden towards recurrent taxes on immovable property and inheritance tax, and by removing VAT exemptions.

Other key priorities

Increase the efficiency of the education system. Skills are declining, drop-out rates from compulsory school are high, labour market relevance is unsatisfactory and students spend too much time in tertiary education before graduation.

Actions taken: Several new policies are being implemented, bringing most importantly an increased focus on reading and mathematics, and an improved education and career progression for teachers.

Recommendations: Improve career prospects and work-life balance for teachers to attract the best talents. Develop systems to improve low-performing schools. Enhance education and career counselling and match education supply better with the needs of employers. Encourage shorter completion times in tertiary education.

Reduce housing market distortions. Overly rigid planning and rental regulations impede labour mobility, reduce competition in construction and increase the risk of build-up of financial and macroeconomic imbalances.

Actions taken: Increases in risk weights for mortgages and the introduction of a countercyclical capital buffer (2014) have reduced macroeconomic risks. Planning regulations and rent controls were eased marginally in 2013.

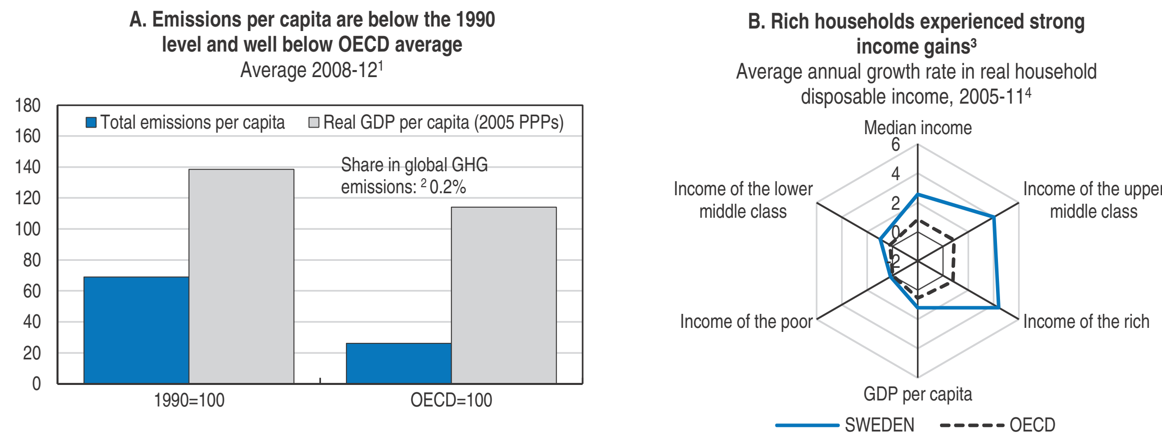
Recommendations: Deregulate the rental market and increase the transparency and efficiency of spatial planning. Reinstate recurrent housing taxation and/or remove mortgage interest deductibility.

Reform areas no longer considered a priority in *Going for Growth*

For Sweden, all priority areas from the 2013 issue of *Going for Growth* are maintained.

SWEDEN

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2004-11 for Sweden.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178834

SWITZERLAND

- Since 2008, real GDP per capita and productivity have been growing at a pace similar to the upper half of OECD countries. Income per capita remains above the average of advanced economies but productivity is lagging.
- Progress has been made in agricultural reform with direct payments being shifted towards biodiversity and sustainable resource utilisation, as part of the 2014-17 policy framework. In education, an inter-cantonal agreement has been reached regarding harmonisation of scholarships and loans, and limited tax deductibility of training fees for professionals has been adopted.
- Shifting the weight of taxation from income to indirect taxes could lift growth via increased labour utilisation and productivity. Stepping up pre-school funding, especially for migrant children, and boosting tertiary education graduation, would increase human capital accumulation and hence productivity growth. There remains a wide scope for reducing the cost of health care provision.
- Eliminating price support in agriculture and taxing polluting inputs and outputs would accelerate the transition to a sustainable agriculture. Increasing public spending on childcare and encouraging access for children from disadvantaged backgrounds could raise women's labour force participation and reduce inequality.

Growth performance indicators

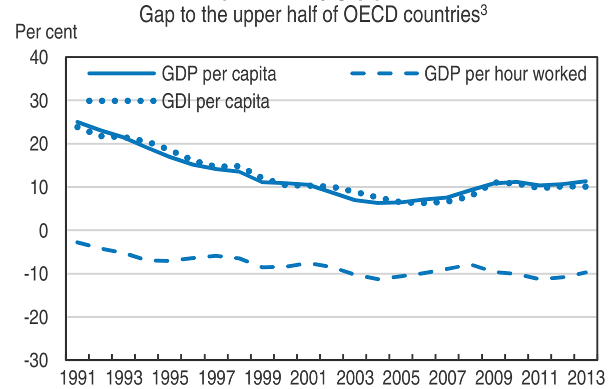
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.1	0.7
Potential labour utilisation		0.2	0.3
of which:	Labour force participation rate	0.1	0.2
	Employment rate[1]	-0.1	0.0
	Trend employment coefficient[2]	0.2	0.2
Potential labour productivity		0.8	0.4
of which:	Capital deepening	-0.3	-0.3
	Labour efficiency	0.9	0.4
	Human capital	0.2	0.2

B. A productivity gap persists

Gap to the upper half of OECD countries[3]



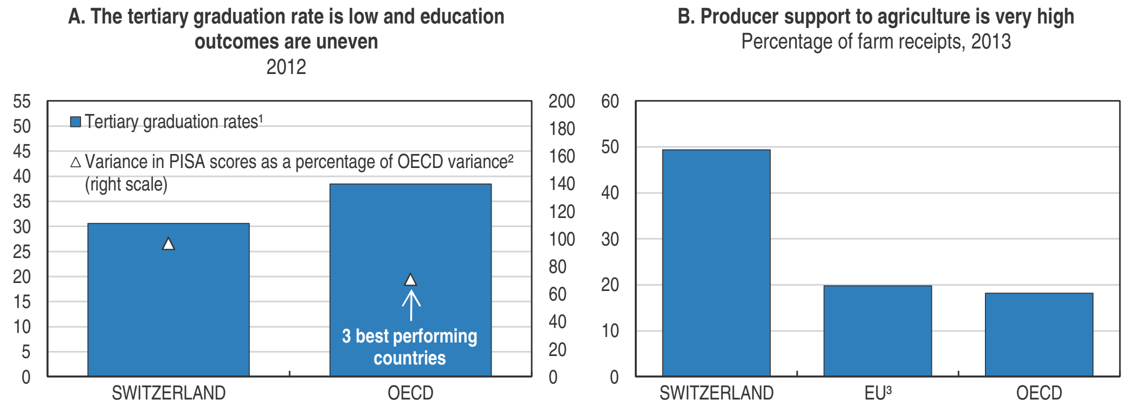
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177986

SWITZERLAND

Policy indicators



1. Graduation rate for typical age at tertiary type-A level (first-time graduate). Tertiary type-A graduation rates in Switzerland are low by OECD standards, in part explained by the predominance of vocational streams with over 60% of students taking this track on upper-secondary level.
2. OECD = 100. The variance components in mathematics, sciences and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the sample of students used in the analysis.
3. For this measure, EU refers to all 27 members of the European Union.

Source: Panel A: OECD (2014), *Education at a Glance 2014: OECD Indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eag-2014-en*; OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*; and OECD (2013), *PISA 2012 Results: Excellence through Equity (Volume II): Giving Every Student the Chance to Succeed*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201132-en*. Panel B: OECD, *Producer and Consumer Support Estimates Database*.

StatLink http://dx.doi.org/10.1787/888933178411

Going for Growth 2015 priorities

Priorities supported by indicators

Improve access and equity in education. Skills shortages, low enrolment in tertiary education and weak educational outcomes of pupils from low socio-economic background (especially migrants) limit growth in the long term.

Actions taken: The inter-cantonal agreement aiming at harmonising scholarships and loans entered into force in March 2013 with 16 out of the 26 cantons having ratified it. Training and advanced-training fees are now tax deductible up to CHF 12 000 for professionals.

Recommendations: Step up public funding of pre-schools and enrolment therein, and increase immigrant participation by introducing targeted pre-school cash support. Consider teacher-training programmes focusing on helping teachers develop practical remedial skills. Improve access to tertiary education for students from lower socio-economic and immigrant backgrounds through special financial support (e.g. means-tested grants).

Reduce producer support to agriculture. Producer support to agriculture is high and multiform: price support, direct payments, input subsidies, border protection, quotas and tariffs. It has adverse effects on productivity, trade negotiations, the budget and the environment.

SWITZERLAND

Actions taken: In March 2013, the Parliament approved a new policy regime for 2014-17 whereby direct payments (CHF 2¾ billion) will be shifted toward broader public-interest objectives, mainly supply security and the environment.

Recommendations: Eliminate all forms of farm price support, and condition all direct payments to environmental outcomes. Consider introducing a tax on inputs (fertilisers) or outputs (methane from livestock) generating pollution, and end farmers' exemption from the mineral oil tax. Remove impediments to shifting agricultural land to other uses. Further lower the border protection of domestic production. Remove impediments to structural change in land law, especially inheritance rules favouring the passing on of farms between generations.

Reform the tax system. Shifting some of the tax burden away from direct towards indirect taxation could lift labour utilisation and allocative efficiency, hence labour productivity.

Actions taken: In 2014 Switzerland agreed to sign up to a new global standard on automatic information exchange on bank accounts. A reform on corporate taxation was proposed in 2013 by the Swiss Federal Council to introduce internationally accepted measures to replace the current cantonal and federal tax regimes.

Recommendations: Implement the proposed corporate taxation reform. Increase the standard value-added tax rate, and remove exemptions from it. Lower personal income taxes, and introduce a CO_2 levy on transport fuels, combined with a variable congestion charge.

Other key priorities

Increase the efficiency of the health system. Health care spending per capita is among the highest in the OECD, even in comparison with countries with similarly high health outcomes.

Actions taken: No action taken.

Recommendations: Do away with the mixed hospital funding, making insurers responsible for all hospital funding. Allow insurers more freedom to contract with providers individually, and increase the compensation insurers receive for differences in risk characteristics.

Facilitate full-time labour force participation of women. The paucity and high cost of childcare, dissuasive effective marginal tax rates on second earners, weak corporate culture of gender diversity and a still positive wage gap contribute to women's high incidence of part-time work.

Actions taken: No action taken.

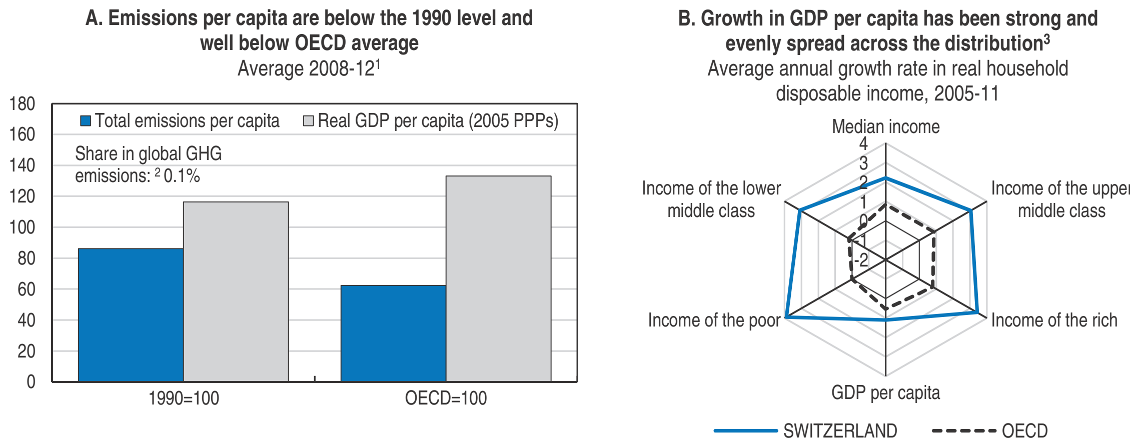
Recommendations: Increase public spending on childcare and amend regulations to increase the range of price-quality choices available. Implement a corporate governance code establishing gender goals in management. Set ambitious company board targets combined with the "Comply or Explain" practice or by setting quotas. Move from joint to individual tax assessment of spouses' income.

SWITZERLAND

Reform areas no longer considered a priority in *Going for Growth*

For Switzerland, all priority areas from the 2013 issue of *Going for Growth* are maintained.

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178847

TURKEY

- The income gap *vis-à-vis* the upper half of OECD countries continues to narrow but remains large. The convergence achieved over the past decade has been driven by productivity gains, and more recently by strong job creation outside agriculture.
- A new, comprehensive *National Employment Strategy* was published by the Government in May 2014. However, this initiative faces political obstacles and its success hinges on the adoption of supporting legislation.
- Reforms to improve educational outcomes are essential to further narrow the income gap *vis-à-vis* higher-income countries. Encouraging formal employment, especially among underrepresented groups such as older workers and women, is key to unleash the growth potential. This can be achieved by reducing labour costs, reforming employment protection and raising incentives to work longer in the formal sector. Product market reforms are also needed to stimulate competition and productivity growth in sheltered sectors.
- Progress with vocational and life-long education, notably for youth and women would not only improve productivity and employability, but also help reduce the still wide income gaps between social groups and across regions.

Growth performance indicators

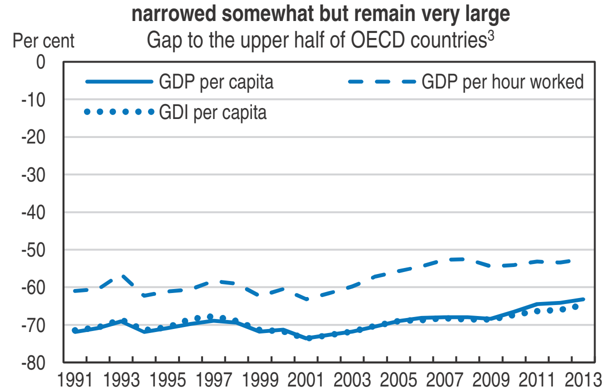
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		2.5	2.9
Potential labour utilisation		-0.3	0.9
of which:	Labour force participation rate	0.0	0.9
	Employment rate[1]	-0.3	0.0
	Trend employment coefficient[2]	0.0	0.0
Potential labour productivity		2.9	1.9
of which:	Capital deepening	0.6	0.2
	Labour efficiency	1.2	0.8
	Human capital	1.0	0.9

B. Gaps in GDP per capita and productivity have narrowed somewhat but remain very large

Gap to the upper half of OECD countries[3]



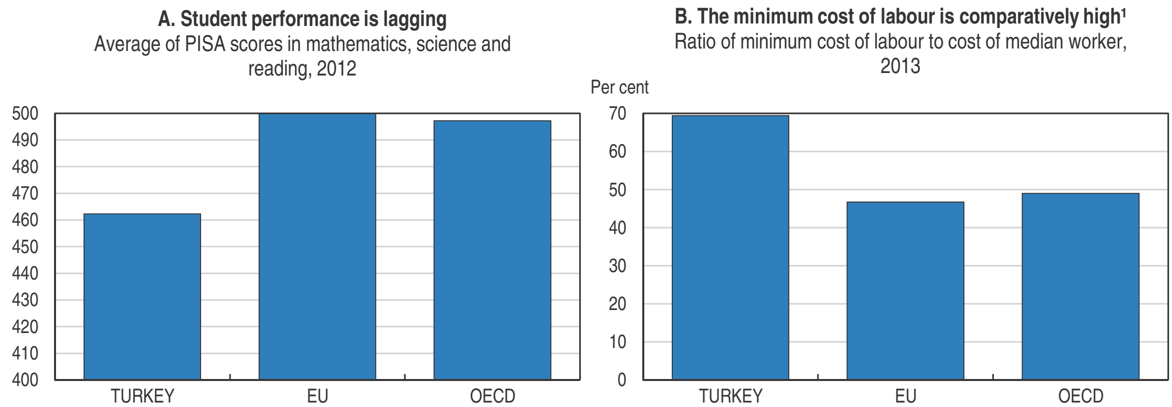
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933177993

TURKEY

Policy indicators



1. The cost of labour is the sum of the wage level and the corresponding social security paid by employers.

Source: Panel A: OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*. Panel B: OECD, *Employment Outlook and Taxing Wages Databases*.

StatLink http://dx.doi.org/10.1787/888933178427

Going for Growth 2015 priorities

Priorities supported by indicators

Improve educational achievement at all levels. School enrolment rates are increasing but there is ample scope to improve quality and equity.

Actions taken: Reforms are being phased in to improve school quality by introducing mechanisms of performance accountability, including an Information Management System for Education Expenditure (e-School Budget) and a Budget Based School Performance Monitoring System (e-performance Budget).

Recommendations: Reduce the persisting large quality gaps among both schools and universities by granting them more autonomy and resources per student, against greater performance accountability. Develop pre-school education. Strengthen vocational education and life-long training in co-operation with the business sector.

Reduce the cost of employment of the low skilled. Relatively high minimum costs of labour for employers discourage the hiring of low-skilled workers in the formal sector.

Actions taken: Time-limited reductions in social security contributions were granted in selected provinces in 2013.

Recommendations: Make permanent the cuts granted during the crisis and further reduce social security contributions for low-skilled workers throughout the country, financing this by a widening of the tax base. Limit the growth of the official minimum wage and promote minimum wage settlement at regional level through local consultations between government, employer and employee representatives.

Reform employment protection legislation. Rigid employment protection rules for permanent and temporary workers nurture a large informal sector.

Actions taken: A new and comprehensive *National Employment Strategy* was published in May 2014. It aims at replacing rigid employment protection with a "flexicurity" system adapted to Turkish circumstances.

Recommendations: Replace the very costly severance payment regime (available only for a minority of formal sector workers) with "portable" severance saving accounts available for all workers – as foreseen in the new *Employment Strategy*. Liberalise fixed-term and temporary work agency contracts. Broaden the scope and eligibility for unemployment insurance in order to move protection from jobs to individuals.

Other key priorities

Improve competition in network industries and agriculture. Obstacles to competition in network industries and agriculture undermine productivity growth.

Actions taken: The privatisation of all 21 electricity distribution companies was completed in 2013. Three power plants were also privatised in 2014.

Recommendations: Accelerate the liberalisation of all network sectors. Delink agricultural support from production and shift its composition away from price measures towards direct support

Encourage formal work at older ages. The pensionable age is 47, which creates disincentives to continued formal sector work at older ages, as the phasing in of the pension reform is only very gradual.

Actions taken: No action taken since the Strategy to Combat the Informal Economy, 2012-13.

Recommendations: Make continuing work in the formal sector after official retirement age more attractive and actuarially neutral. Speed up increases in the statutory retirement age. Establish a health insurance contribution for young retirees.

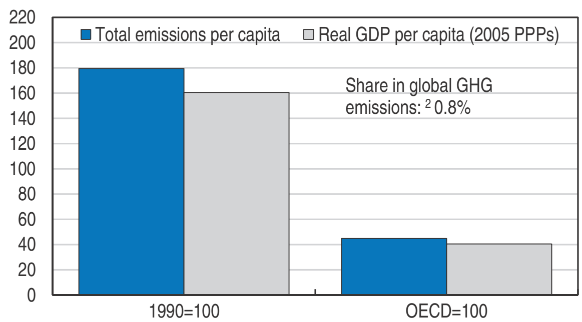
Reform areas no longer considered a priority in *Going for Growth*

For Turkey, all priority areas from the 2013 issue of *Going for Growth* are maintained.

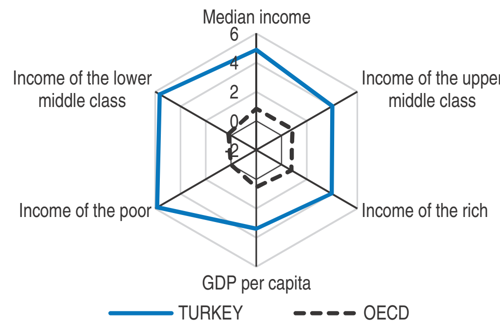
TURKEY

Beyond GDP per capita: Other policy objectives

A. Emissions per capita remain below OECD average
Average 2008-12[1]



B. Household income has grown by more than GDP per capita, especially for low-income households[3]
Average annual growth rate in real household disposable income, 2005-11[4]



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2004-11 for Turkey.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178850

UNITED KINGDOM

- The GDP per capita gap relative to best performing OECD countries, which started to widen in the early 2000s, shows signs of stabilising, or even narrowing. Productivity remains below its pre-crisis level.
- Actions have been taken in most recommended reforms, such as strengthening work incentives by reviewing the welfare system, youth employability and skills by expanding compulsory education, training and apprenticeships, and public sector efficiency by reforming public healthcare.
- Further action is warranted to improve education outcomes and equity, strengthen active labour market policies, enhance the effectiveness of the planning regime and improve public infrastructure.
- Improved equity in education and skills among young people, in association with stronger and better active labour market policies can increase employment and reduce income inequality. Introducing user pricing in road transport can optimise infrastructure use and contribute to greener growth.

Growth performance indicators

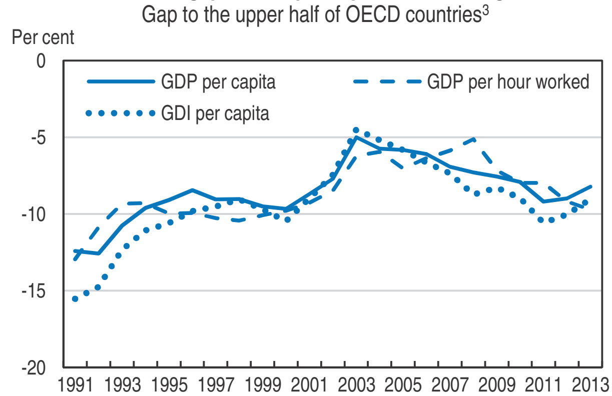
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.6	0.5
Potential labour utilisation		0.1	0.1
of which:	Labour force participation rate	0.2	0.2
	Employment rate[1]	-0.1	-0.1
	Trend employment coefficient[2]	0.0	0.0
Potential labour productivity		1.5	0.5
of which:	Capital deepening	1.3	0.9
	Labour efficiency	-0.1	-0.7
	Human capital	0.3	0.3

B. The gap in GDP per capita is stabilising

Gap to the upper half of OECD countries[3]



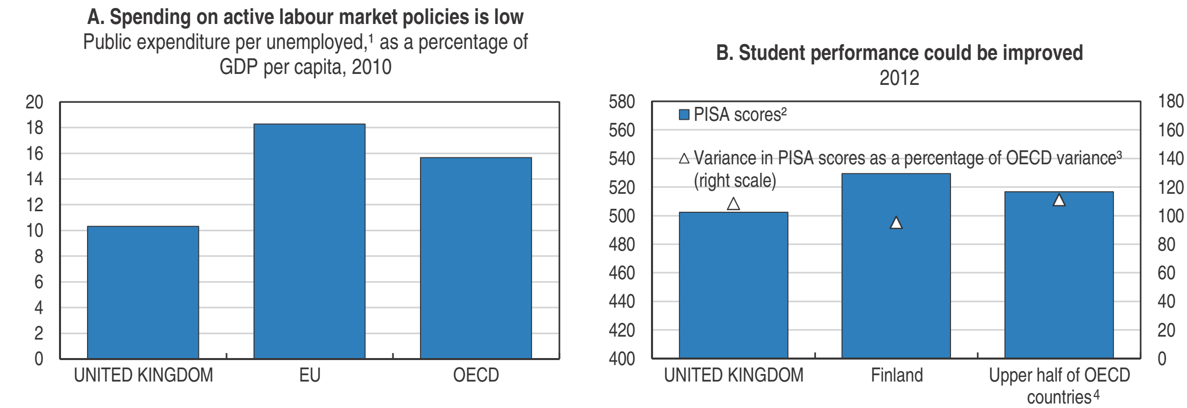
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933178006

UNITED KINGDOM

Policy indicators



1. 2012 data for OECD and EU averages.
2. Average of PISA scores in mathematics, science and reading.
3. OECD = 100. The variance components in mathematics, sciences and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the sample of students used in the analysis.
4. Upper half of OECD countries in terms of PISA scores in mathematics, science and reading and in terms of the total variance as a percentage of the OECD variance.

Source: Panel A: OECD, *Public expenditure and participant stocks on LMP and Economic Outlook Databases*. Panel B: OECD (2013), *PISA 2012 Results: Excellence through Equity (Volume II): Giving Every Student the Chance to Succeed*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201132-en*; and OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*.

StatLink http://dx.doi.org/10.1787/888933178439

Going for Growth 2015 priorities

Priorities supported by indicators

Improve outcomes and equity in education. Student performance is below the OECD average and is uneven across social groups.

Actions taken: Compulsory participation in education or training was extended to age 18 (2013/14). The Pupil Premium to help with the education of pupils from disadvantaged background was further increased over the period 2013-14. Apprenticeship funding through the Apprentice Grants for Employers was further increased in Budget 2014.

Recommendations: Monitor the impact of previous reforms such as the Education Act 2011 on the average quality of education outcomes and equity across social groups. Encourage the expansion of high quality postsecondary vocational programmes.

Strengthen work incentives and active labour market policies. Spending on active labour market policies is significantly below the OECD average. The share of young people not in employment, education or training (NEET) is relatively high, especially among young people with low education.

Actions taken: As a result of earlier reforms, the share of population receiving disability benefits and the number of weeks lost due to sickness leave have fallen. Universal Credit, a welfare reform aimed at increasing work incentives, is being introduced gradually since 2013.

Recommendations: Implement the Universal Credit and monitor its effectiveness in moving people towards employment. Increase spending on active labour market policies and improve their efficiency by fostering competition among contracted providers, better profiling customers and developing a performance measurement system. Further reduce the cost of childcare to increase work incentives for parents.

Strengthen public sector efficiency. Public sector efficiency is low compared to other OECD countries.

Actions taken: A Better Care Fund, providing funding to local governments to join up health and care services was announced in June 2013. Expenditure-based fiscal consolidation with cuts in public sector employment has continued hence contributing to greater efficiency in the delivery of public services, but health and education have been spared from adjustments.

Recommendations: Monitor the impact of healthcare reform and, if needed, take additional measures to increase efficiency in the health care sector.

Other key priorities

Enhance the effectiveness of land planning regulation. Stringent planning regulation complicates construction development.

Actions taken: The Nationally Significant Infrastructure Planning regime was extended to business and commercial projects in the Growth and Infrastructure Act 2013.

Recommendations: Closely monitor the effectiveness of the new National Planning Policy Framework, introduced in 2012, in accelerating the planning permissions process and approval rate and take further steps if needed.

Improve public infrastructure. Congestion is high in the road transport network and the quality of the infrastructure stock is perceived as suboptimal.

Actions taken: A list of infrastructure projects continues to be published in the National Infrastructure Plan.

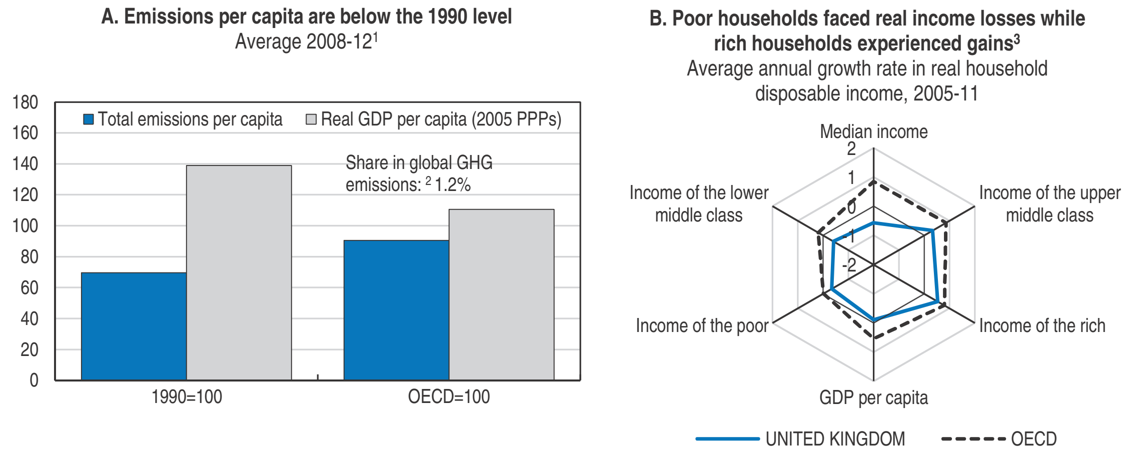
Recommendations: Further prioritise public infrastructure investment and continue to increase access to private financing. Move towards user pricing, especially in areas where negative environmental externalities exist, such as road transport.

Reform areas no longer considered a priority in *Going for Growth*

For the United Kingdom, all priority areas from the 2013 issue of *Going for Growth* are maintained.

UNITED KINGDOM

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178863

UNITED STATES

- The advantage in GDP per capita relative to the upper half of the OECD has been persistent while narrowing somewhat during the financial crisis. In large part the positive gap has been driven by strengthening labour productivity whereas falls in labour force participation have been acting on the opposite direction.
- Important reforms in the areas of healthcare, education and activation policies are being implemented. Mixed progress has been made in the areas of agriculture and tax reform.
- Growth will be supported by policies raising employment and human capital accumulation, reducing distortions in the tax system and agricultural support and raising the efficiency of the health sector.
- In addition to boosting productivity, improving access to high-quality education and helping the return to work of the unemployed would help reduce inequality.

Growth performance indicators

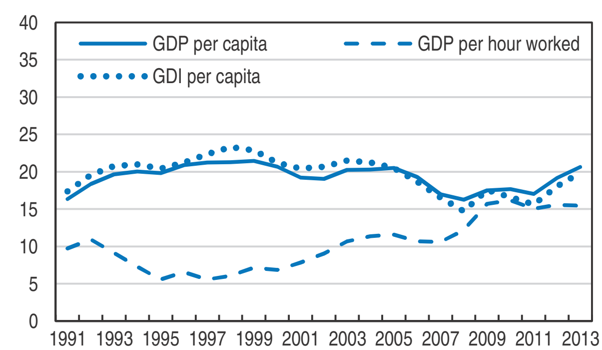
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.3	0.9
Potential labour utilisation		-0.4	-0.5
of which:	Labour force participation rate	-0.2	-0.5
	Employment rate[1]	0.0	0.0
	Trend employment coefficient[2]	-0.3	-0.1
Potential labour productivity		1.7	1.4
of which:	Capital deepening	0.0	-0.3
	Labour efficiency	1.6	1.5
	Human capital	0.1	0.1

B. The positive gap in GDP per capita persists

Gap to the upper half of OECD countries[3]



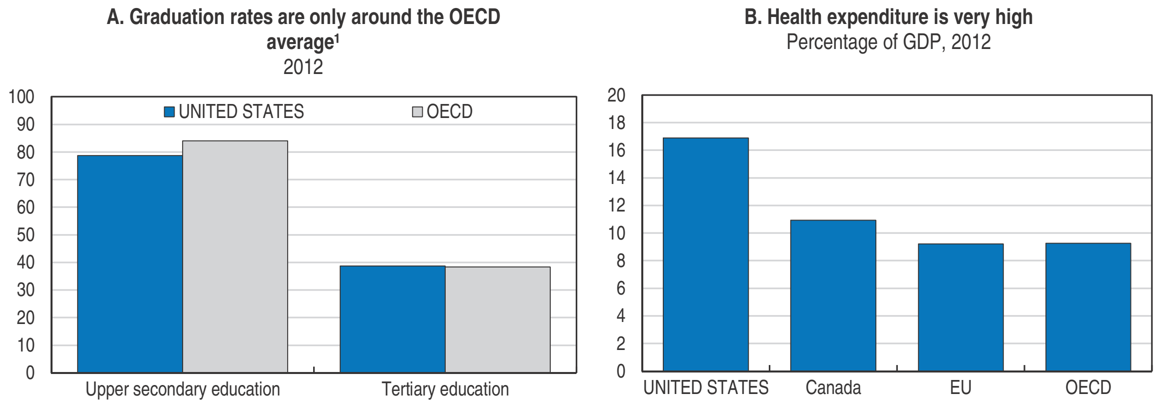
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933178016

UNITED STATES

Policy indicators



1. First-time graduation rates for typical age at upper secondary level and at tertiary-type A level.

Source: Panel A: OECD (2014), *Education at a Glance 2014: OECD Indicators*, OECD Publishing, *http://dx.doi.org/10.1787/eag-2014-en*. Panel B: OECD, *Health Database*.

StatLink http://dx.doi.org/10.1787/888933178443

Going for Growth 2015 priorities

Priorities supported by indicators

Strengthen active labour market policies. Enhanced activation programmes would help reduce unemployment persistence and the incidence of long-term unemployment. More effective disability programmes would raise labour force participation.

Actions taken: In 2013, the third round of the Trade Adjustment Assistance Community College and Career Training grants programme supported partnerships between community colleges and businesses to (re)train the unemployed as well as underemployed workers. In 2014, support was provided to "Ready to Work" partnerships that support public-private efforts to put the long-term unemployed back to work. The 4th round of the Disability Employment Initiative launched in 2013 seeks to improve education, training and employment opportunities.

Recommendations: Continue to broaden and enhance activation measures, such as training. Support for adult training should aim to strengthen quality assurance and establish better links to local employers. Expand successful pilot programmes conducted under the Disability Employment Initiative.

Improve the efficiency of the health care sector. Healthcare spending is comparatively high and inefficient while coverage is low.

Actions taken: The continued roll out of the Affordable Care Act of 2010 in 2013 and 2014 included a number of programmes that act to improve quality and reduce costs in government health care provision as well as to facilitate greater risk pooling in the individual and small-group market.

Recommendations: Continue to conduct pilot programmes of Medicare provider payment systems, assessments of the comparative effectiveness of prescription drugs and research by the Patient Centred Outcome Research Institute. Ensure that cost-saving measures identified by research and in the pilot programmes are rolled out and their impact monitored. Monitor developments in coverage.

UNITED STATES

Improve the efficiency of the tax system. Numerous exemptions to corporate and personal income tax distort economic activity and are often regressive.

Actions taken: Since the FY2013 budget, the values of tax claims for tax deductions and exclusions for personal income taxation has been limited to 28%.

Recommendations: Cut the statutory marginal corporate income tax rate and broaden its base to reduce the incentive to shift business activity to non-corporate forms. Act towards rapid international agreement and take measures to prevent base erosion and profit shifting. Eliminate regressive exemptions such as mortgage interest deductions for owner-occupied housing. Simplify eligibility procedures for numerous (and often changing) tax provisions. Reduce record keeping requirements when the tax authorities already possess the underlying information from other sources with a view to lower the cost of tax compliance and raise the efficiency of taxation. Increase reliance on consumption and environmental taxation.

Other key priorities

Improve equality of opportunity and outcomes in education. A more inclusive education system would foster gains in productivity and income.

Actions taken: The Bipartisan Student Loan Certainty Act of 2013 bases interest rates for new Federal Direct Student Loans on long-term treasury bonds. The Preschool for All initiative aims to increase access to preschool education for 4-year olds.

Recommendations: Expand effective targeted pre-school initiatives such as Head Start, Early Head Start and evidence-based home visiting programmes. Ensure states meet quality standards to receive federal support, including requiring pre-school teachers to have the required skills and competencies. Support the adoption and introduction of common core standards in primary and secondary education.

Reduce producer support to agriculture. Producer support to agriculture distorts trade and production, leading to inefficiencies and damping productivity.

Actions taken: The Agriculture Act of 2014 introduced a number of reforms, notably eliminating a number of fixed annual payments based on historical production and modifying the cotton support regime to reduce production and trade distortions. However, the reforms also introduced new crop insurance options, which act like production-related subsidies.

Recommendations: Continue to reduce production-related subsidies (including the subsidised crop insurance programmes) and the remaining agricultural-produce import barriers.

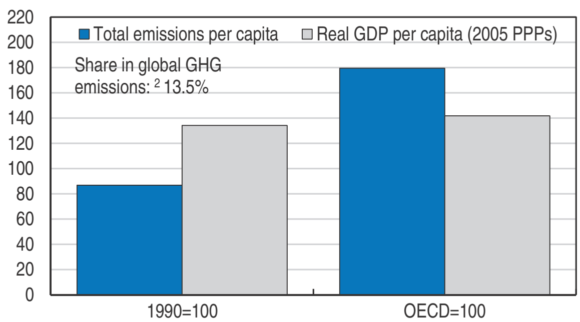
Reform areas no longer considered a priority in *Going for Growth*

For the United States, all priority areas from the 2013 issue of *Going for Growth* are maintained.

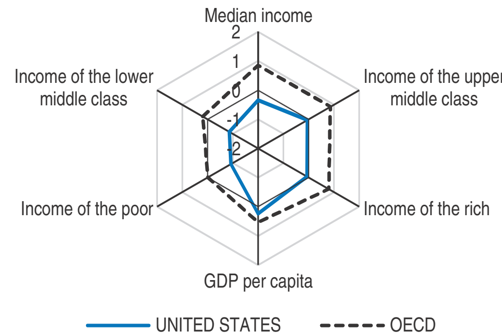
UNITED STATES

Beyond GDP per capita: Other policy objectives

A. Emissions per capita are below the 1990 level but well above OECD average
Average 2008-12[1]



B. Household real income, especially among the poor fell while GDP per capita increased[3]
Average annual growth rate in real household disposable income, 2005-11[4]



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-12 for the United States.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178879

METHODOLOGICAL DETAILS ON THE CALCULATION OF HOUSEHOLD INCOMES ACROSS THE DISTRIBUTION

Household incomes across the distribution are measured by a specific range of income standards, defined formally as follows:

$$\mu_\alpha = \left[(x_1{}^{\alpha} + \ldots + x_n{}^{\alpha}) / n\right]^{\frac{1}{\alpha}} \quad \text{for all } \alpha \neq 0 \text{ and } \mu_\alpha = \left[(x_1 \ldots x_n)\right]^{\frac{1}{n}} \text{ for all } \alpha = 0,$$

where the vector $x = (x_{1,\ldots}\ x_n)$ describes the income distribution, $x_{.i} > 0$ is the income of the i-th person and n is the population size.

These measures of income levels place varying sensitivity to different parts of the income distribution, as governed by the parameter α, with greater weight on higher incomes and less weight on lower incomes as α rises. Hence, α can be interpreted as (an inverse) measure of the level of inequality aversion. The parameter value $\alpha = 1$ (corresponding to the average) provides a natural dividing line between the "bottom sensitive" income standards (with $\alpha < 1$) that emphasise lower incomes and take values below the average, and "top sensitive" income standards (with $\alpha > 1$) that emphasise higher incomes and take values above the average.

For the purpose of assessing real incomes at different points of the distribution, the Chart on household income growth included in each country note focuses on the following set of income standards:

1. Weak emphasis on the bottom of the distribution: the geometric mean ($\alpha = 0$, median income) is empirically generally close to the median.
2. Moderate emphasis on the bottom of the distribution: this intermediate case ($\alpha = -3$) can be interpreted as covering incomes in the "lower-middle class".
3. Strong emphasis on the bottom of the distribution: this case ($\alpha = -8$, income of the poor) is empirically generally close to the mean income of the poor, where the latter are defined in relative terms with a threshold set between 50 and 60% of median income.
4. Moderate emphasis on the top of the distribution: this intermediate case ($\alpha = 4$) can be interpreted as covering incomes in the "upper-middle class".
5. Strong emphasis on the top of the distribution: this case ($\alpha = 10$) can be interpreted as covering incomes of the "rich".

Additional details on the methodology can be found in Causa, O., A. de Serres and N. Ruiz (2014), "Can Pro-Growth Policies Lift All Boats? An Analysis Based on Household Disposable Income", *OECD Economics Department Working Papers*, OECD, Paris, *www.oecd.org/eco/growth/Can_pro-growth_policies_lift_all_boats_an_analysis_based_on_household_disposable_income.pdf*.

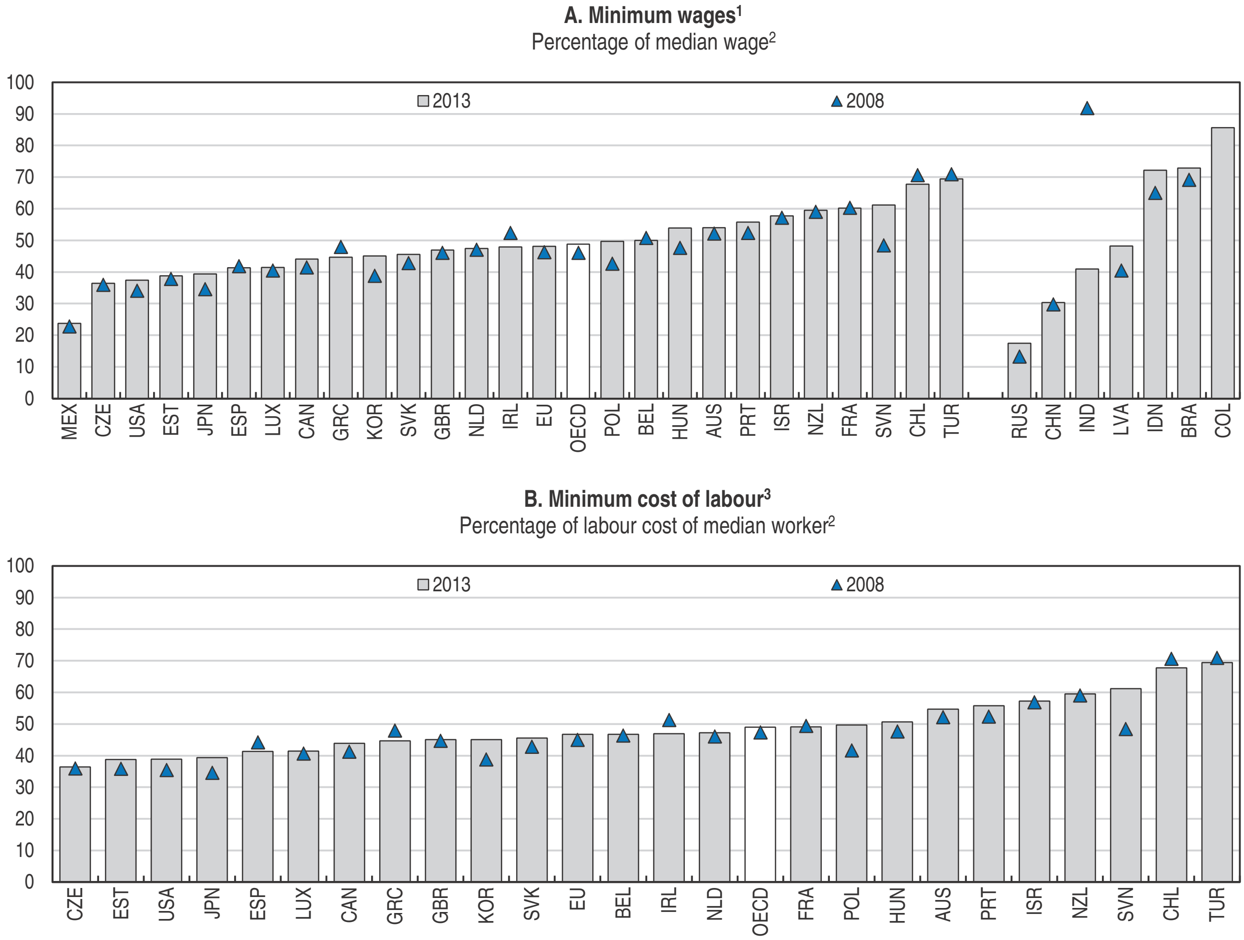
Chapter 6

Structural policy indicators

This chapter contains a comprehensive set of quantitative indicators that allow for a comparison of policy settings across countries. The indicators cover areas of taxation and income support systems and how they affect work incentives, as well as product and labour market regulations, education and training, trade and investment rules and innovation policies. The indicators are presented in the form of figures showing for all countries the most recent available observation and the change relative to the previous observation.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Figure 6.1. **Cost of labour**



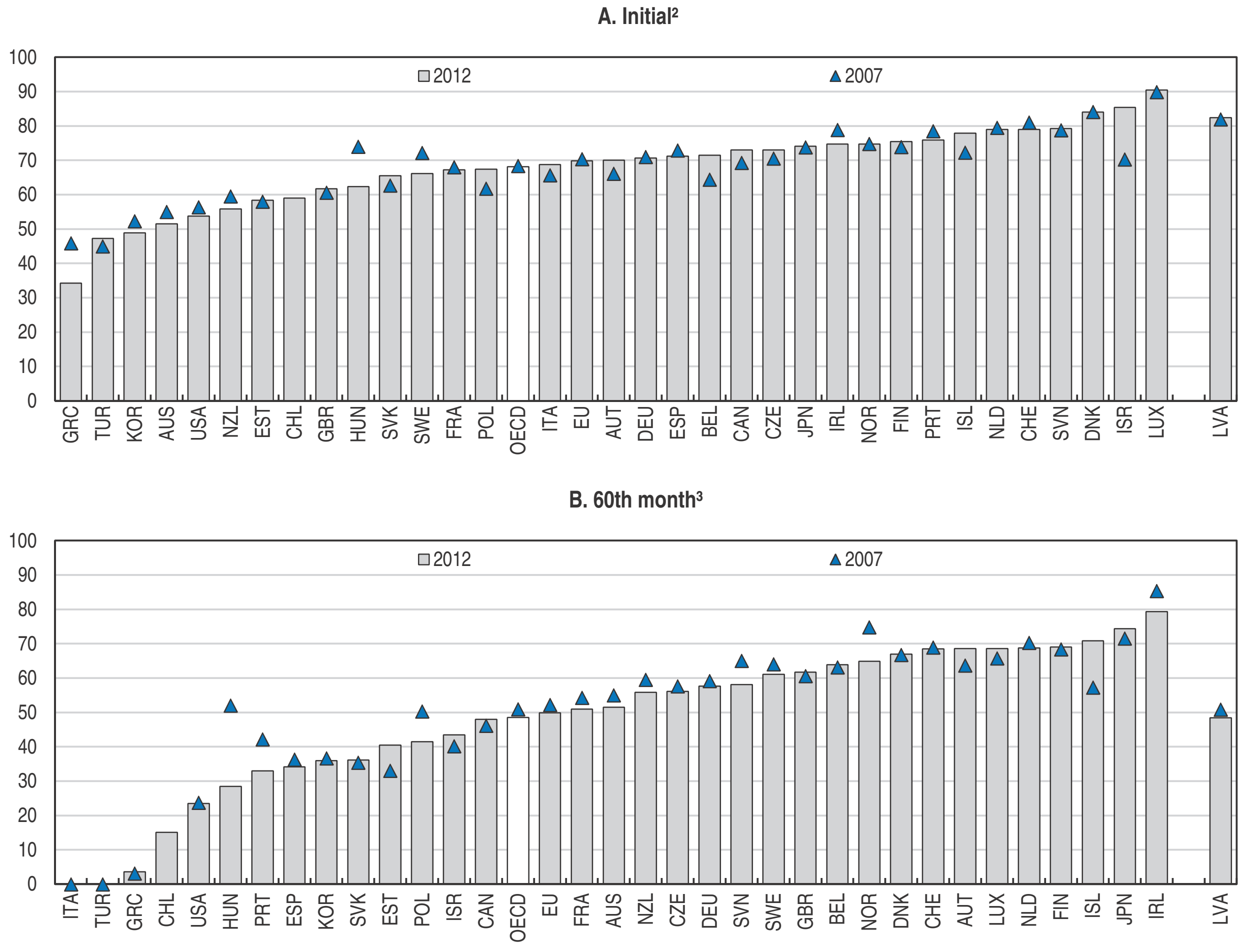
1. Missing countries do not have a national statutory minimum wage except for Mexico. Data refer to 2004-05 and 2009-10 for India and to 2009 (instead of 2008) for Chile.
2. Exactly half of all workers have wages either below or above the median wage for the OECD countries. Percentage of minimum to average wage for China, Indonesia, the Russian Federation and India.
3. The cost of labour is the sum of the wage level and the corresponding social security contribution paid by employers. 2009 (instead of 2008) data for Chile.

Source: Panel A: OECD, *OECD Employment Outlook Database*; China Ministry of Human Resources and Social Security, National Bureau of Statistics; Instituto Brasileiro de Geografia e Estatística (*Pesquisa Nacional por Amostra de Domicílios*); ILO (International Labour Organization), *Database on Conditions of Work and Employment Laws*; Ministry of Man Power and Transmigration of the Republic of Indonesia and Statistics Indonesia; Russia Federal State Statistics Service; and Rani, U., P. Belser, M. Oelz and S. Ranjbar (2013), “Minimum wage coverage and compliance in developing countries”, *International Labour Review*, Vol. 152, No. 3-4. Panel B: OECD, *OECD Employment Outlook and Taxing Wages Databases*.

StatLink http://dx.doi.org/10.1787/888933178976

Figure 6.2. **Net income replacement rates for unemployment**[1]

Net income when unemployed as a percentage of net income when working



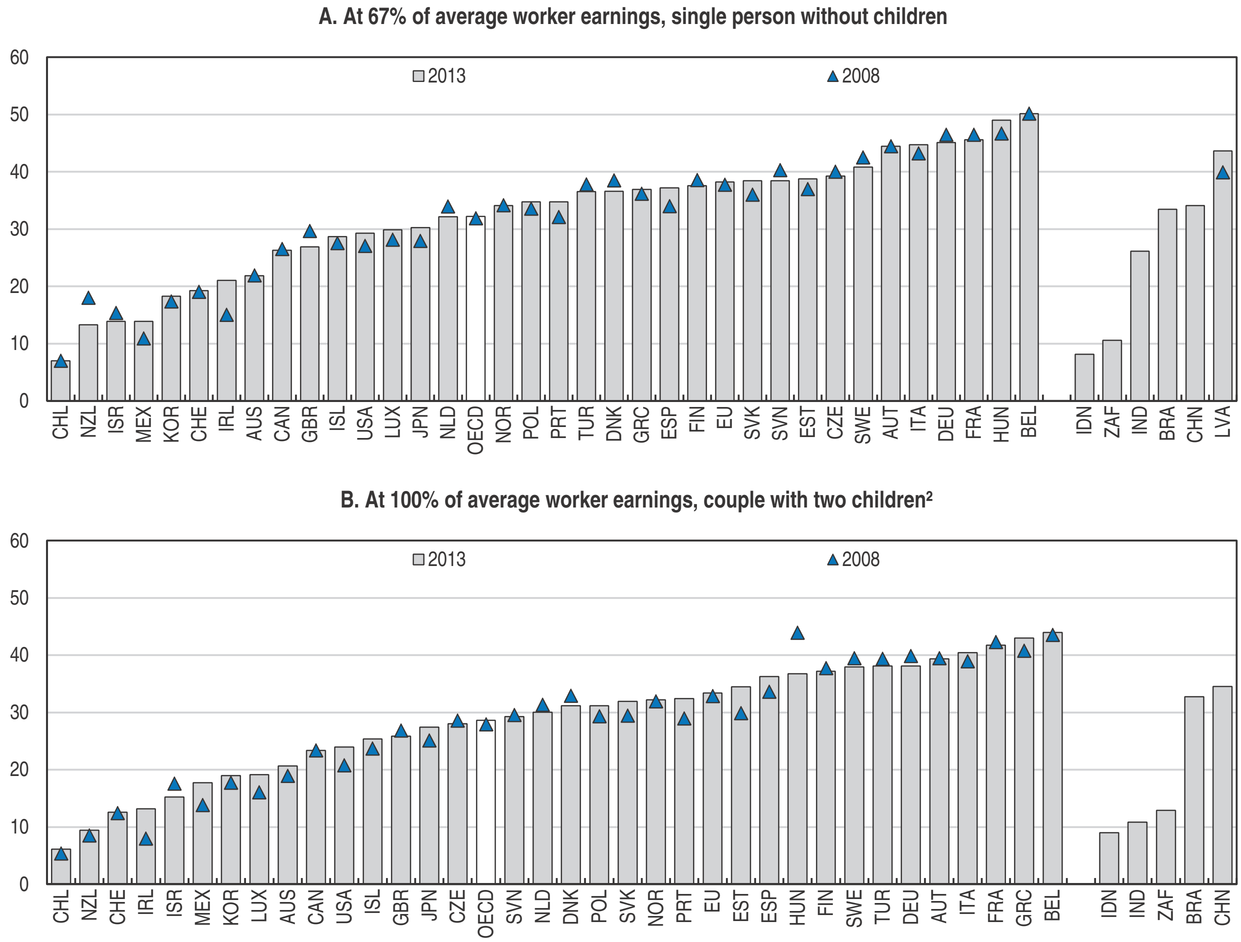
1. Simple average of the net replacement rates for the following households situations: single with no child and with two children at 67% and 100% AW, one-earner married couple with no child and with two children at 67% AW and 100% AW. After tax and including unemployment and family benefits. Social assistance and other means-tested benefits are assumed to be available subject to relevant income conditions. Housing costs are assumed equal to 20% of AW. The OECD average excludes Chile for 2007 and Mexico for 2007 and 2012. For Turkey, the average worker earnings (AW) value is not available. Calculations are based on average production worker earnings (APW). For Israel, data refer to 2008 instead of 2007.
2. Initial phase of unemployment but following any waiting period. Any income taxes payable on unemployment benefits are determined in relation to annualised benefit values (i.e. monthly values multiplied by 12) even if the maximum benefit duration is shorter than 12 months.
3. After tax and including unemployment benefits, social assistance, family and housing benefits in the 60th month of benefit receipt. Values for Italy and Turkey are equal to zero in 2007 and 2012.

Source: OECD, *Tax-Benefit Models*.

StatLink http://dx.doi.org/10.1787/888933178981

Figure 6.3. **Average tax wedge on labour**[1]

Percentage of total labour compensation



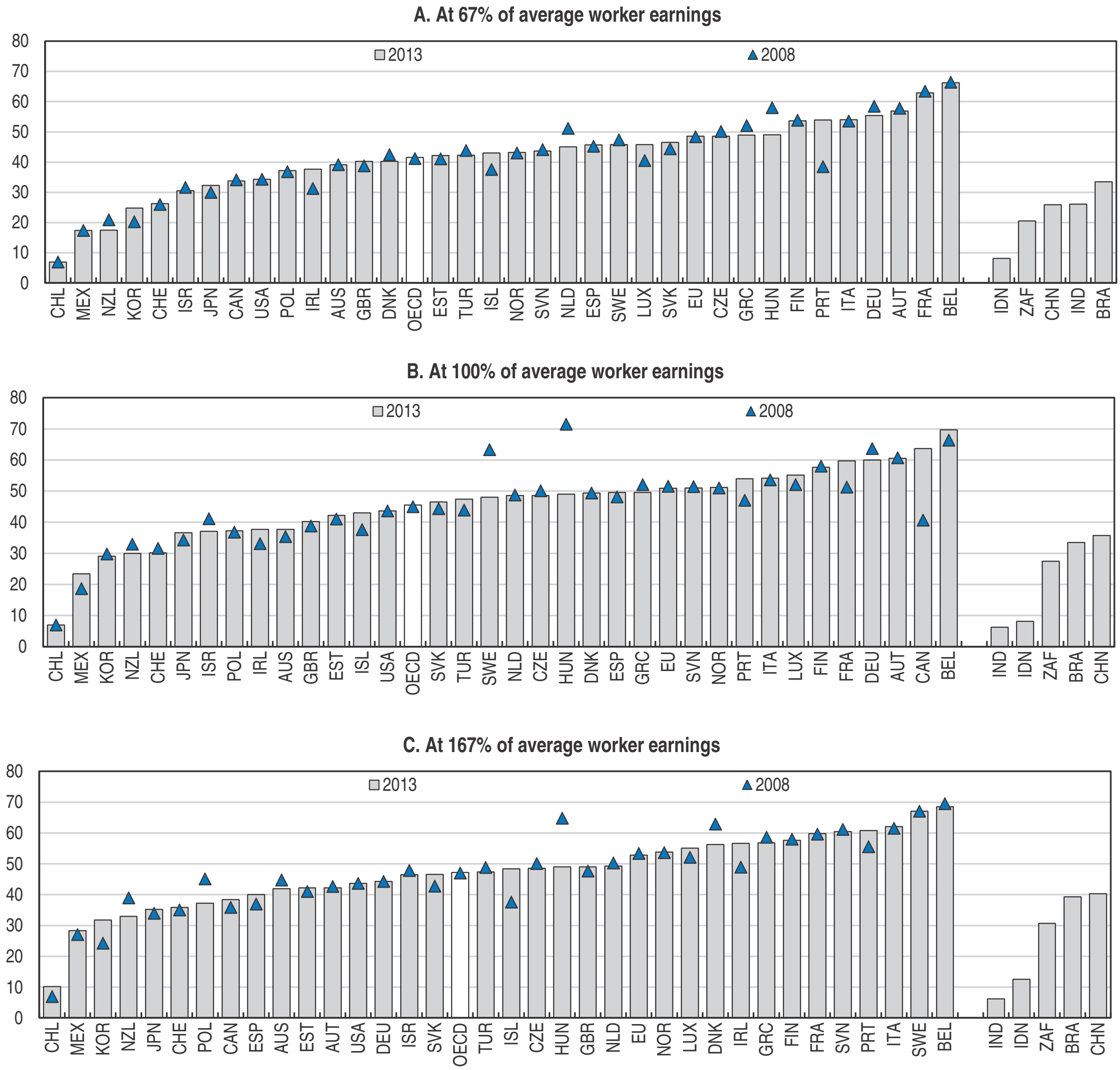
1. Measured as the difference between total labour compensation paid by the employer and the net take-home pay of employees, as a ratio of total labour compensation. It therefore includes both employer and employee social security contributions. For India, the data cover manufacturing companies with 20 or more employees (which represent 5% of all companies in the sector); liability to health insurance and Employee Provident Fund contributions in India are restricted to employees in firms that have 20 or more employees. In China, a significant portion of workers are not covered by the social security system; hence their tax wedge is significantly lower than the figure reported here, which reflects the situation of workers covered. For Latvia, the last available year is 2012.
2. Couple with two children, at 100% of average worker earnings for the first earner. Average of three situations regarding the wage of the second earner (0%, 33% and 67% of average worker earnings)

Source: OECD, *Taxing Wages Database* and for Latvia, *European Commission: Economic Databases and Indicators*. For BIICS countries, data represent the latest figures based on the methodology described in: Gandullia, L., N. Iacobone and A. Thomas (2012), "Modelling the Tax Burden on Labour Income in Brazil, China, India, Indonesia and South Africa", *OECD Taxation Working Papers*, No. 14, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k8x9b1sw437-en*.

StatLink http://dx.doi.org/10.1787/888933178996

Figure 6.4. **Marginal tax wedge on labour**[1]

Percentage of total labour compensation for single persons without children

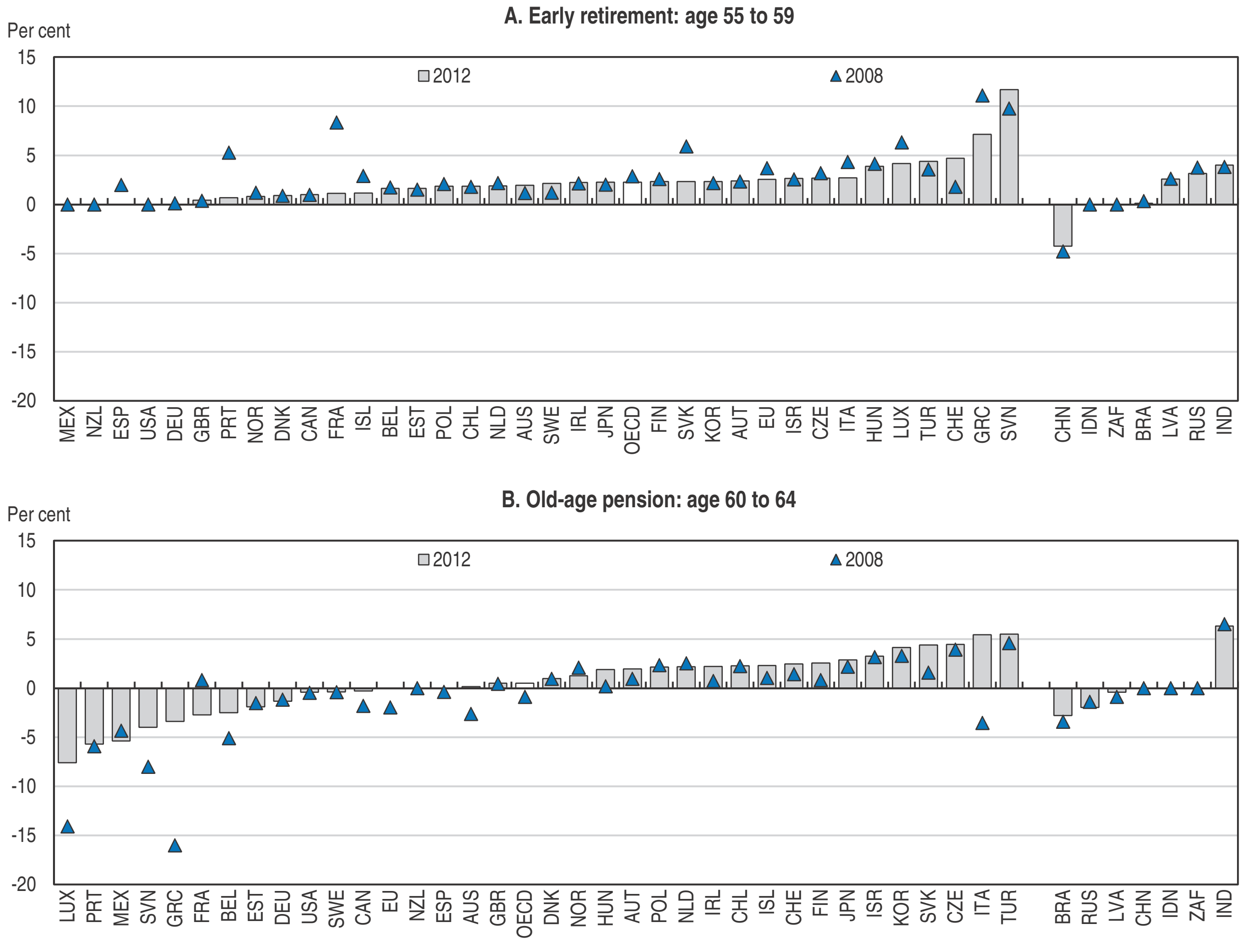


1. Measured as the difference between the change in total labour compensation paid by employers and the change in the net take-home pay of employees, as a result of an extra unit of national currency of labour income. The difference is expressed as a percentage of the change in total labour compensation. For India, the data cover manufacturing companies with 20 or more employees (which represent 5% of all companies in the sector); liability to health insurance and Employee Provident Fund contributions in India are restricted to employees in firms that have 20 or more employees. In China, a significant portion of workers are not covered by the social security system; hence their tax wedge is significantly lower than the figure reported here, which reflects the situation of workers covered.

Source: OECD, *Taxing Wages Database*. For BIICS countries, data represent the latest figures based on the methodology described in: Gandullia, L., N. Iacobone and A. Thomas (2012), "Modelling the Tax Burden on Labour Income in Brazil, China, India, Indonesia and South Africa", *OECD Taxation Working Papers*, No. 14, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k8x9b1sw437-en*.

StatLink http://dx.doi.org/10.1787/888933179008

Figure 6.5. **Changes in net pension wealth**[1]

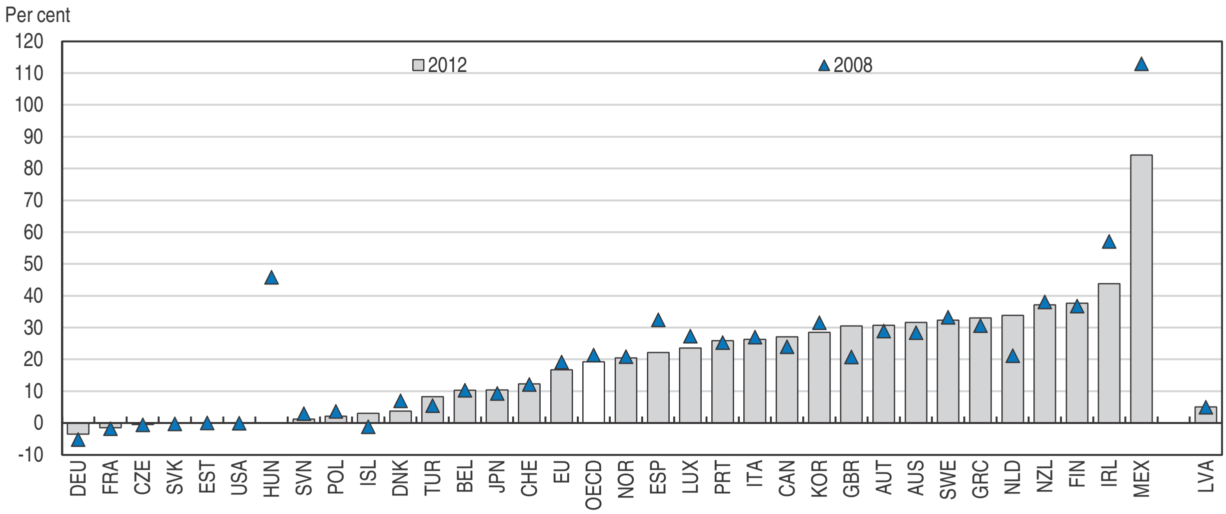


1. The change in pension wealth is a measure of the incentive to remain in the workforce for an additional period. It measures the increase in the level of pension entitlement one gains by remaining in employment for an additional year. The calculation is the annual average increase in males' pension wealth when working from age 55 to 59 (early retirement) and from age 60 to 64 (old-age pension). Net pension wealth is the present value of the flow of pension benefits, taking account of the taxes and social security contributions that retirees have to pay on their pensions. It is measured and expressed as a multiple of gross annual individual earnings in the respective country. See OECD (2013), *Pensions at a Glance 2013: OECD and G20 Indicators* for additional details, OECD Publishing, Paris, *http://dx.doi.org/10.1787/pension_glance-2013-en*.

Source: OECD, *Pension Models*.

StatLink http://dx.doi.org/10.1787/888933179016

Figure 6.6. **Difference in net transfers to government: Single and equal dual-earner couples**[1]



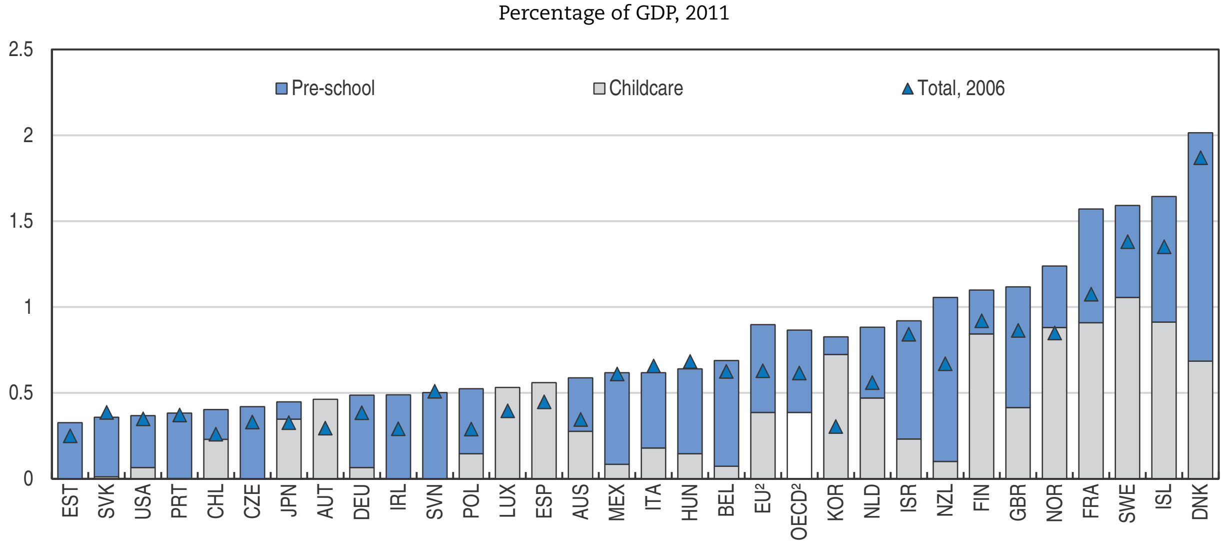
1. The figure highlights the differential tax/benefit "regime" between single and dual-earner couple families, for a given overall level of earnings – e.g. looking at couple families with incomes of 133% of average earnings. It shows the difference in net transfers to government between two household cases: (1) "Single-earner couples" – with one earner with 133% of average earnings and (2) "Equal dual-earner couples" – both spouses earn the same either average earnings or 67% of average earnings. The difference is in percentage points and computed as [(1)-(2)]/(1). For Latvia, the last available year is 2010.

Source: OECD, *Tax-Benefit Models*.

StatLink http://dx.doi.org/10.1787/888933179023

Figure 6.7. **Public expenditure on childcare services**[1]

Percentage of GDP, 2011



1. Childcare expenditure covers children under three enrolled in childcare and children between the ages of three and five enrolled in pre-school. Childcare refers to formal day-care services, such as day-care centres and family day-care. Pre-school includes kindergartens and day-care centres which usually provide an educational content as well as traditional care for children (ISCED 0 under UNESCO's classification system). Local government spending may not be properly captured in the data for federal countries.
2. EU and OECD averages exclude Canada, Greece, Switzerland and Turkey.

Source: OECD, provisional data from the *OECD Family Database*.

StatLink http://dx.doi.org/10.1787/888933179034

Figure 6.8. **Implicit tax on returning to work**[1]

Net transfers and childcare fees for households with two children aged 2 and 3, 2012

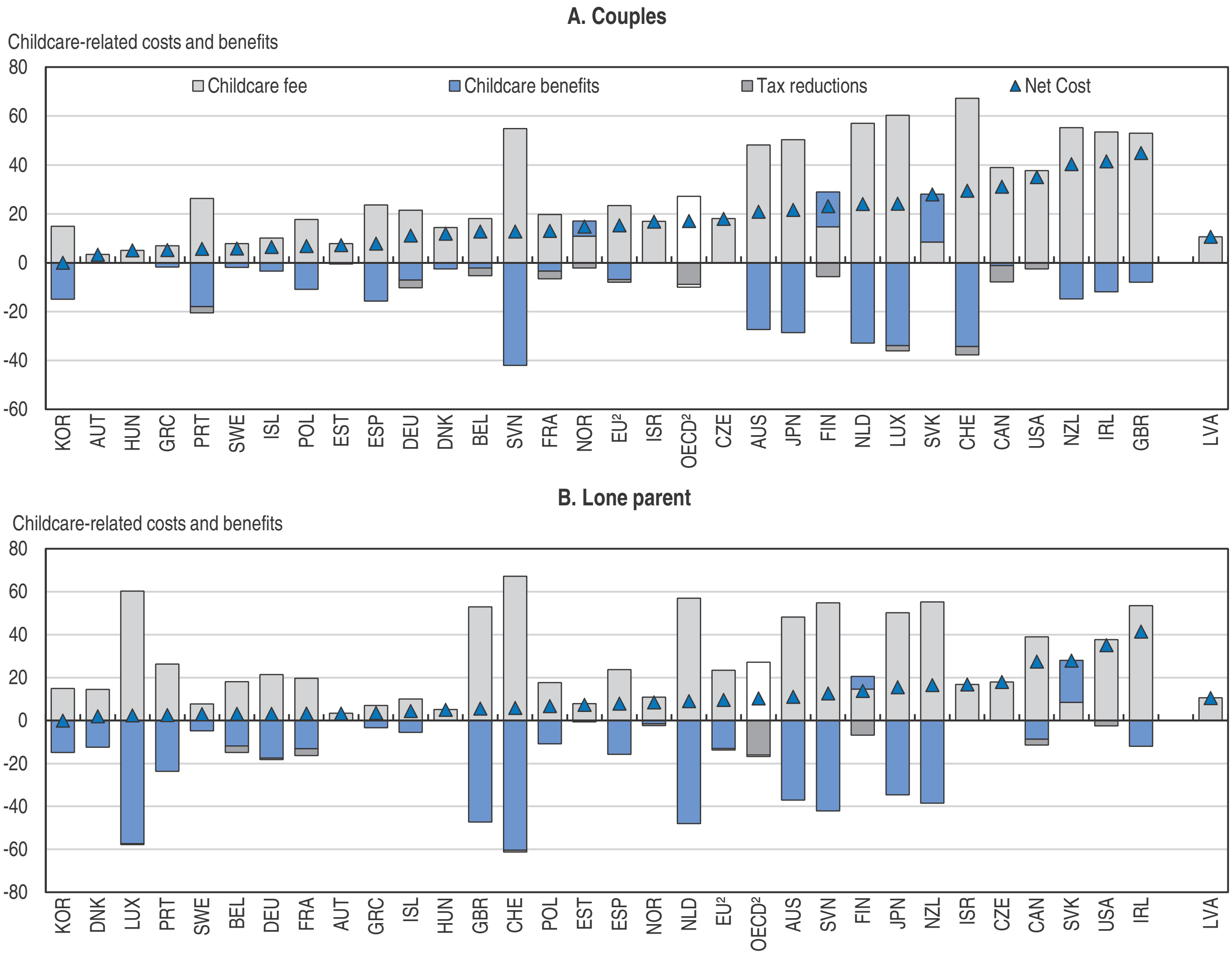
1. Taking into account childcare fees and changes of taxes and benefits in case of a transition to a job paying two-thirds of average worker earnings.
2. Second earner taking up employment at 67% of average wage and the first earner earns 100% of average wage.
3. The OECD average excludes Chile, Italy, Mexico and Turkey.
4. Lone parent taking up employment at 67% of average wage.

Source: OECD, *Tax-Benefit Models*; *www.oecd.org/els/social/workincentives*.

StatLink http://dx.doi.org/10.1787/888933179040

Figure 6.9. **Net costs of childcare**[1]

Percentage of average wage, 2012

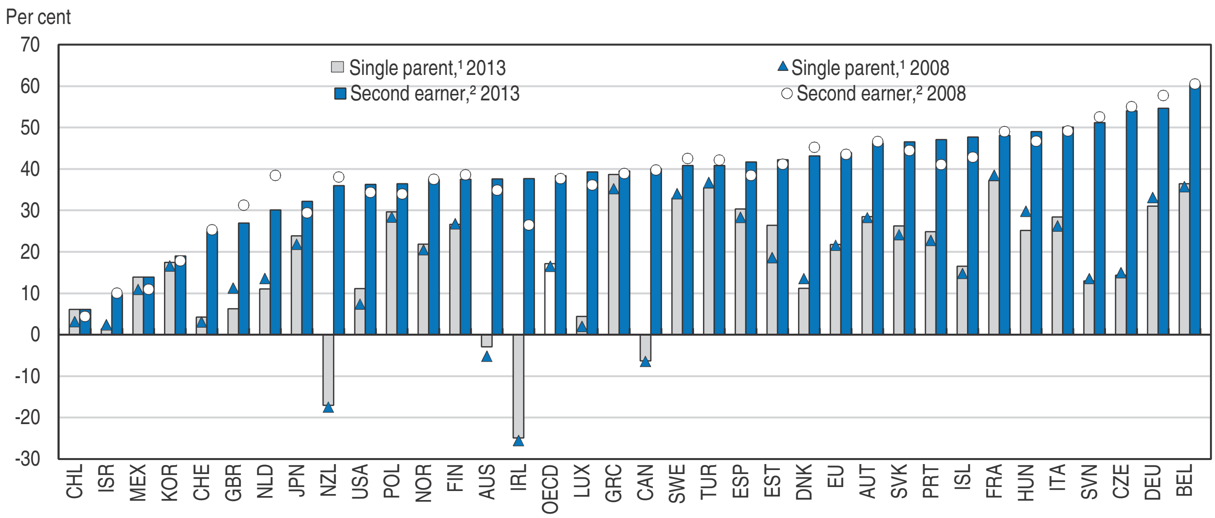


1. Couples where the first earner earns 100% of the average wage and the second earns 67% of the average wage. Lone parent earning 67% of the average wage. For Canada, the European Union, Finland, Norway, OECD, the Slovak Republic, Slovenia and the United Kingdom, childcare benefits refer to childcare and other benefits.
2. EU and OECD averages exclude Chile, Italy, Mexico and Turkey.

Source: OECD, *Tax-Benefit Models*; *www.oecd.org/els/social/workincentives*.

StatLink http://dx.doi.org/10.1787/888933179059

Figure 6.10. **Average tax wedge: Single parent versus second earner**

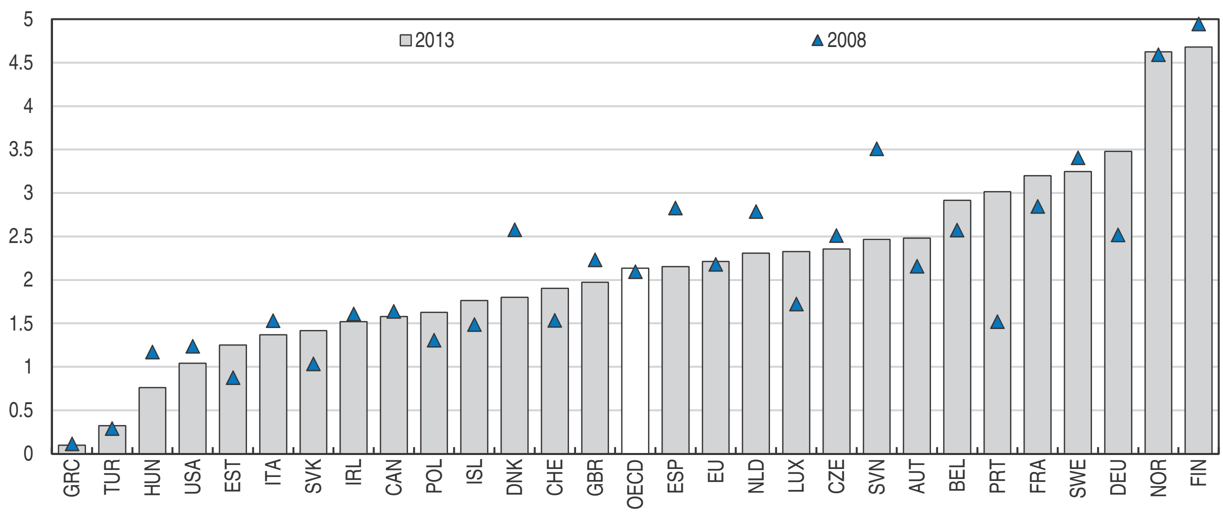


1. Single parent with two children earning 67% of the average wage.
2. Average tax wedge faced by the second earner when earning 67% of the average wage in a family with two children, where the first earner receives a full average wage.

Source: OECD, *Taxing Wages Models*.

StatLink http://dx.doi.org/10.1787/888933179067

Figure 6.11. **Number of weeks lost due to sick leave**[1]



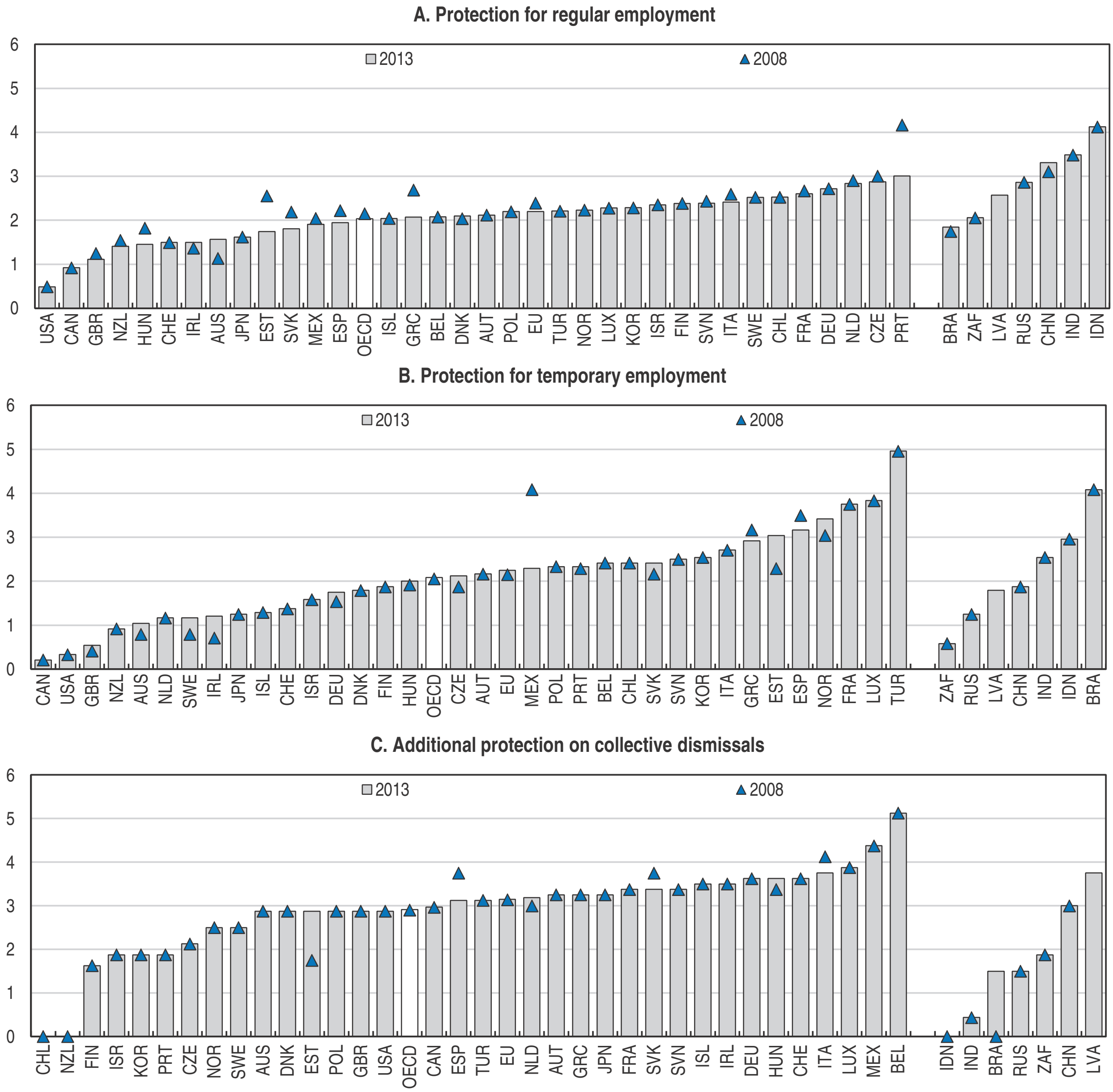
1. The last available year is 2012 for Canada. The OECD average excludes Australia, Chile, Israel, Japan, Korea, Mexico and New Zealand.

Source: OECD estimates based on the European Labour Force Survey (unpublished data), the Canadian Labour Force Survey and published US Current Population Survey estimates on lost working time rate due to injury or illness of full-time wage and salary workers.

StatLink http://dx.doi.org/10.1787/888933179078

Figure 6.12. **Employment protection legislation**[1]

Index scale of 0-6 from least to most restrictive



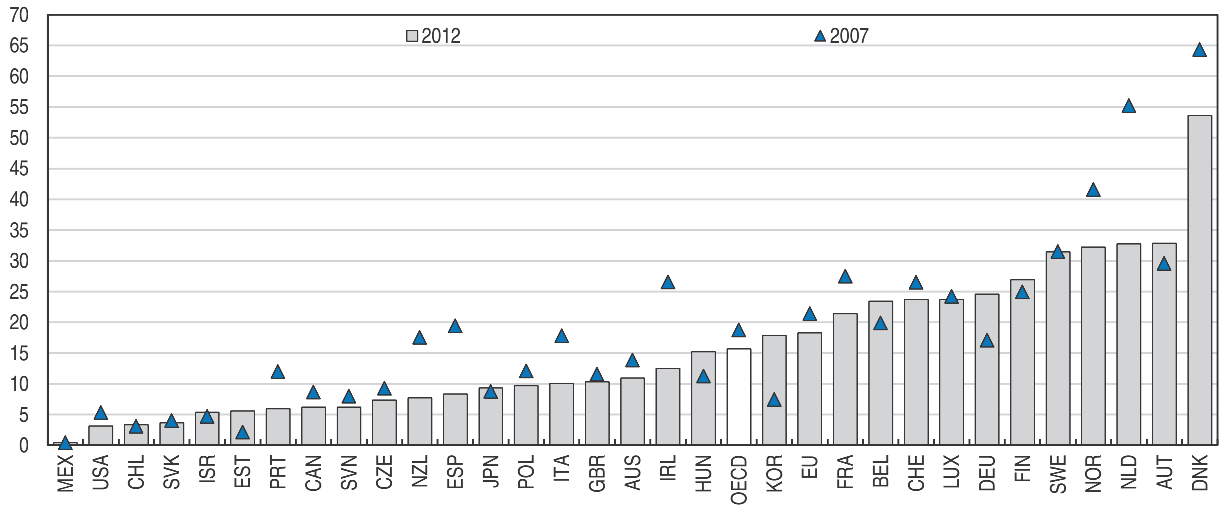
1. The last available data refer to 2012 for BRIICS countries. In Panel C, values for 2013 are equal to zero for Chile, Indonesia and New Zealand.

Source: OECD, *Employment Protection Database*.

StatLink http://dx.doi.org/10.1787/888933179086

Figure 6.13. **Public expenditure on active labour market policies per unemployed**[1]

Percentage of GDP per capita

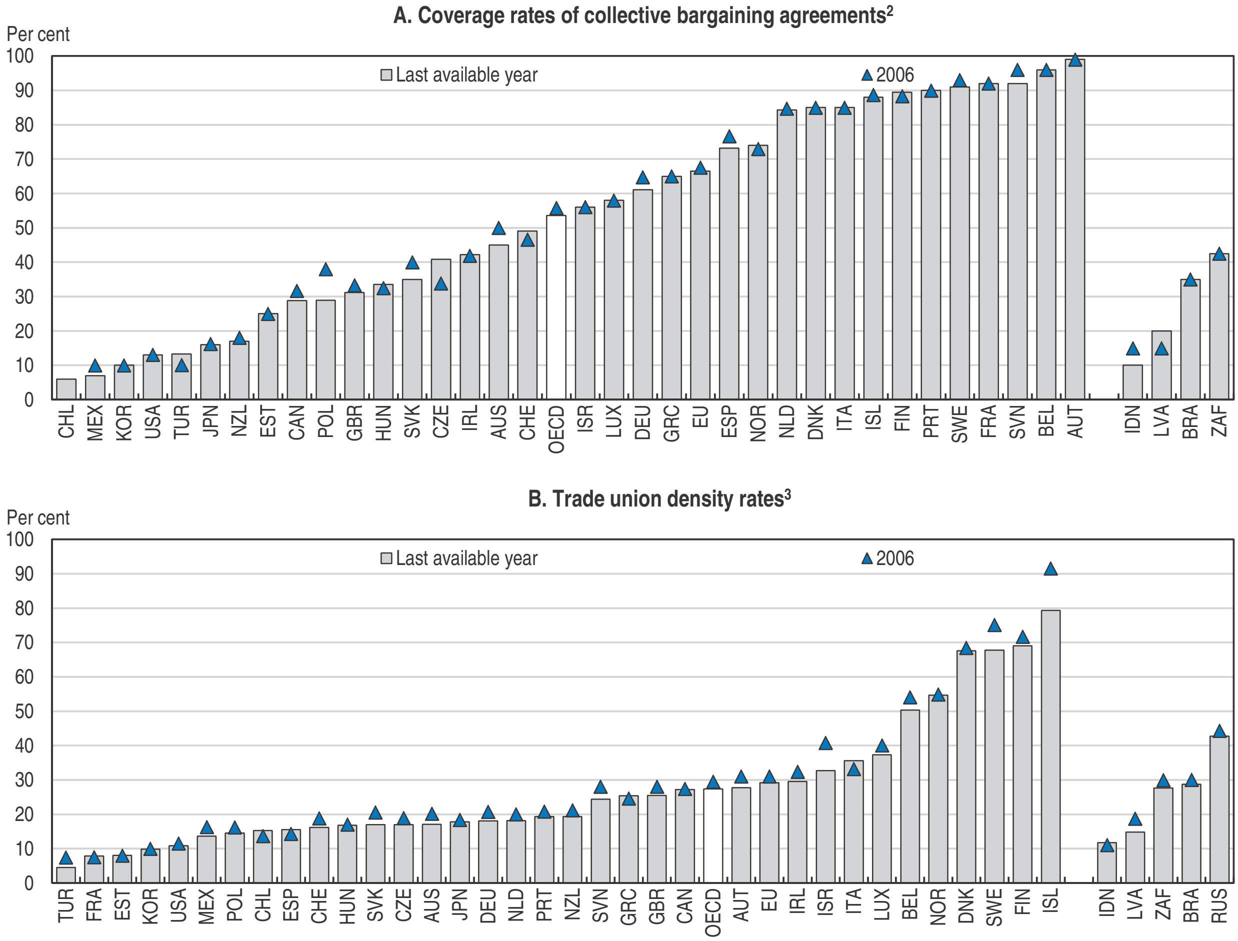


1. The last available year is 2011 for Australia, Ireland, Israel, Luxembourg, Poland and Spain; 2009 for the United Kingdom. OECD and EU averages exclude Greece, Iceland and Turkey. For 2007, data refer to 2008 for Chile.

Source: OECD, *Public expenditure and participant stocks on LMP* and *Economic Outlook Databases*.

StatLink http://dx.doi.org/10.1787/888933179090

Figure 6.14. **Coverage rates of collective bargaining agreements and trade union density rates**[1]



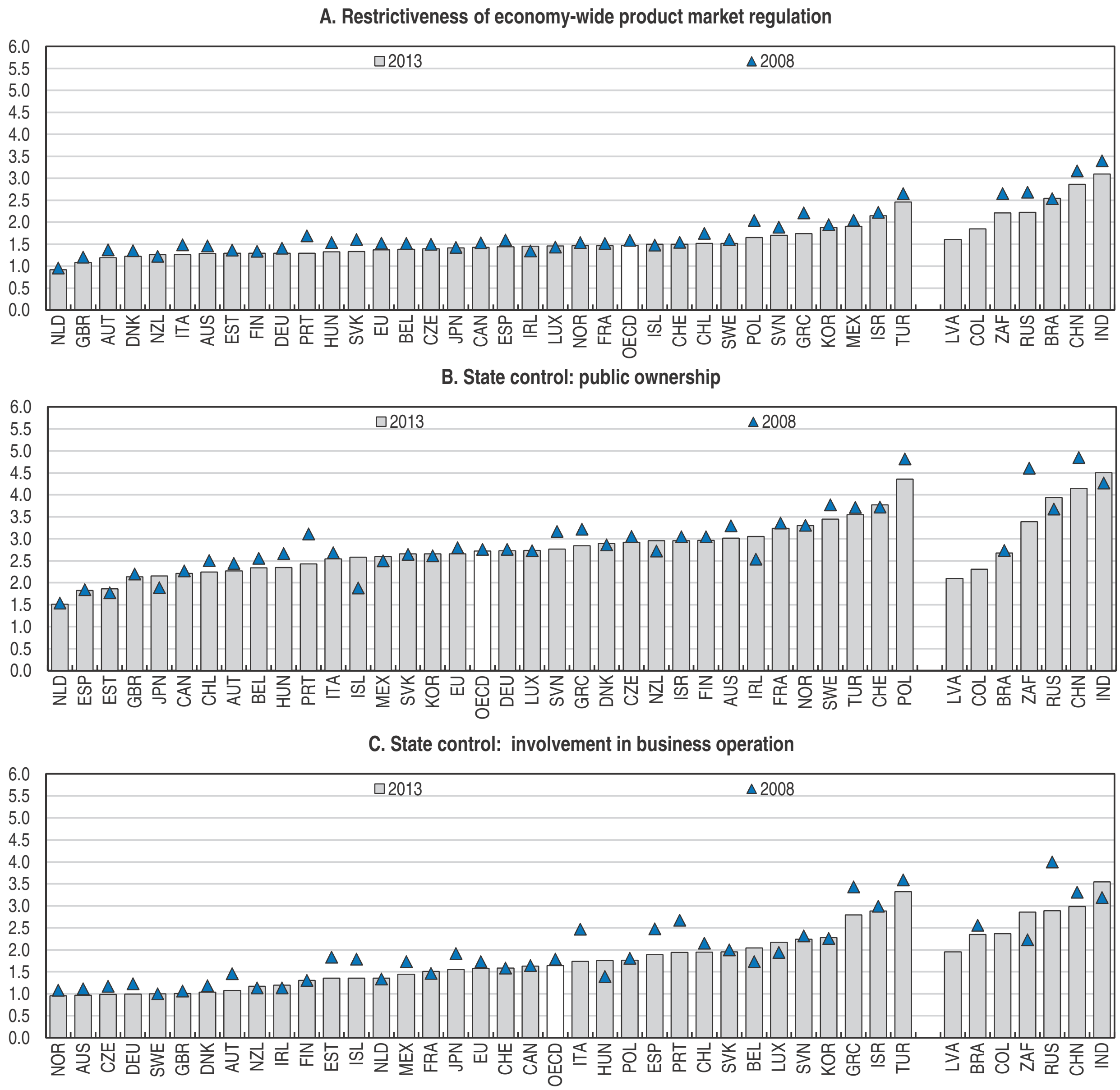
1. The coverage rate is measured as the percentage of workers who are covered by collective bargaining agreements, regardless of whether or not they belong to a trade union. The union density rate is the percentage of workers belonging to a trade union. The rates refer to wage and salary workers.
2. The last available year is 2011 for Canada, the Czech Republic, Latvia, the Slovak Republic, Sweden, the United Kingdom and the United States; 2010 for Austria, Belgium, Germany, Ireland, Italy, the Netherlands, Poland, Spain and Switzerland; 2009 for Estonia, Finland, Hungary and Slovenia; 2008 for France, Greece, Iceland, Japan, Korea, Luxembourg, Mexico, Norway, Portugal, Brazil, Indonesia and South Africa; 2007 for Australia, Chile, Denmark and New Zealand; 2006 for Israel and Turkey. For 2006, data refer to 2007 for Portugal; 2005 for Estonia, Greece, Hungary, Ireland, Italy, Latvia, the Netherlands, Norway, Switzerland and South Africa; 2004 for Denmark and Finland; 2003 for France, Luxembourg, New Zealand, Brazil and Indonesia; 2002 for Austria, Belgium, Iceland and Mexico; 2001 for Australia and Turkey; 2000 for Israel.
3. The last available year is 2013 for Australia, Canada, Ireland, Japan, Mexico, New Zealand, Sweden, the United Kingdom and the United States; 2012 for Chile, Norway, Switzerland and Turkey; 2011 for Austria, Belgium, Finland, Germany, Greece, Italy, Korea, the Netherlands, the Slovak Republic and Slovenia; 2010 for Denmark, Estonia, France, Poland, Portugal and Spain; 2009 for the Czech Republic; 2008 for Brazil, Hungary, Iceland, Latvia, Luxembourg, the Russian Federation and South Africa; 2007 for Indonesia and Israel. For 2006, data refer to 2008 for Slovenia; 2007 for the Russian Federation; 2005 for Indonesia and Latvia and 2000 for Israel.

Source: OECD estimates; and J. Visser, *ICTWSS: Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts in 34 Countries between 1960 and 2012* (Version 4, April 2013), Amsterdam Institute for Advanced Labour Studies.

StatLink http://dx.doi.org/10.1787/888933179101

Figure 6.15. **Product market regulation and state control of business operation**

Index scale of 0-6 from least to most restrictive

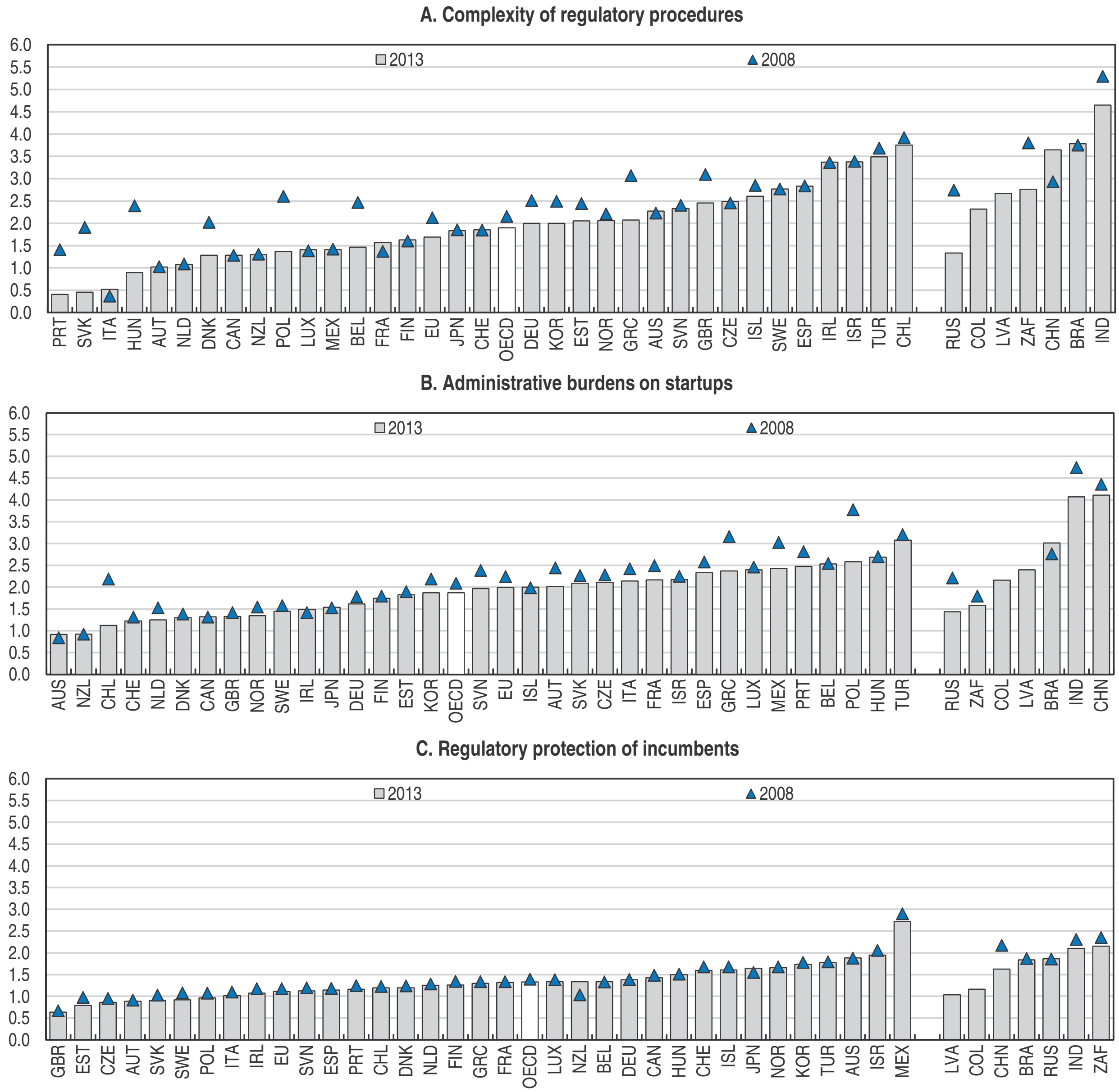


Source: OECD, *Product Market Regulation Database*; and Koske, I., I. Wanner, R. Bitetti and O. Barbiero (2015), "The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and non-OECD Countries", *OECD Economics Department Working Papers*, forthcoming.

StatLink http://dx.doi.org/10.1787/888933179116

Figure 6.16. **Barriers to entrepreneurship**

Index scale of 0-6 from least to most restrictive

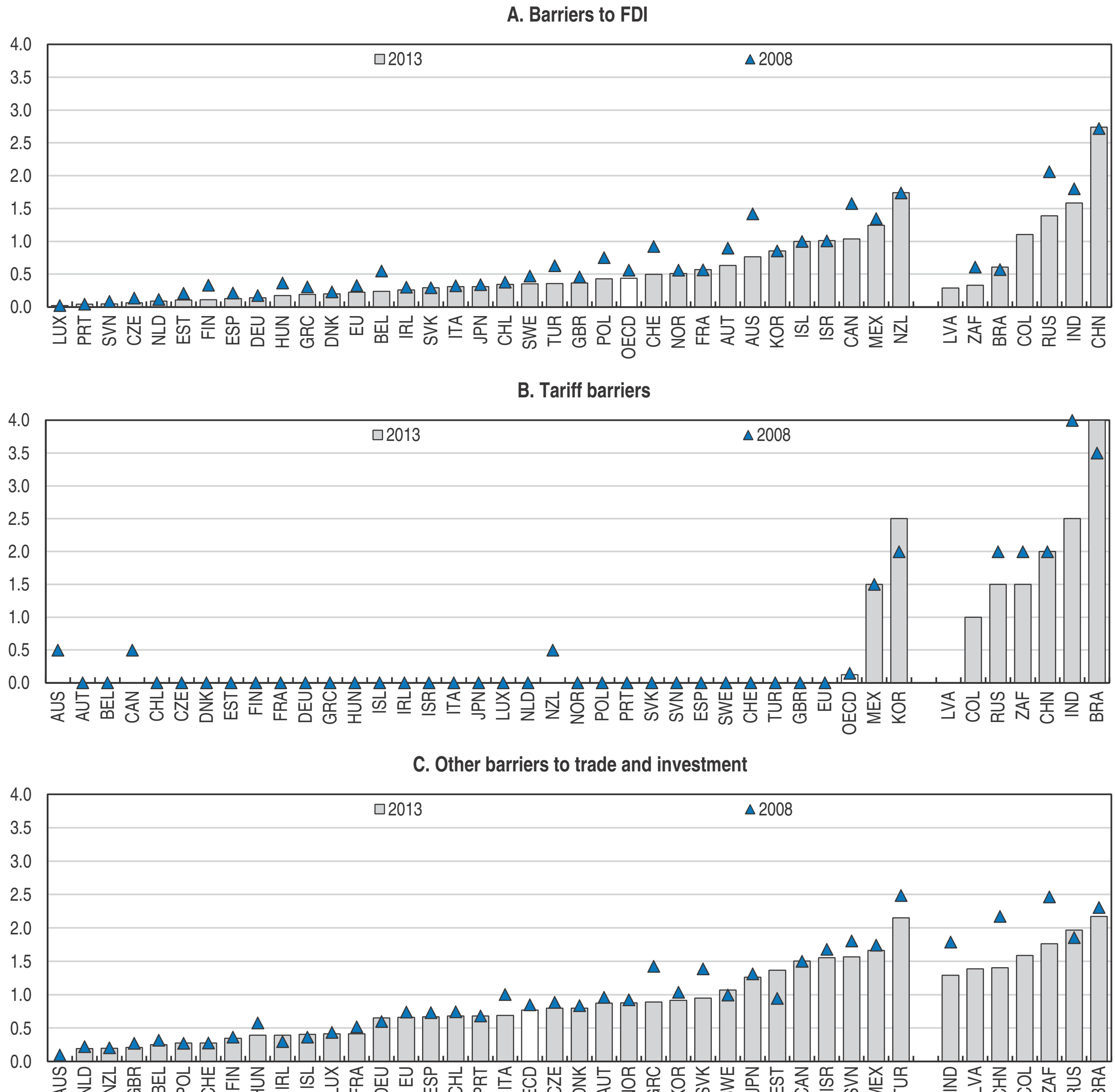


Source: OECD, *Product Market Regulation Database*; and Koske, I., I. Wanner, R. Bitetti and O. Barbiero (2015), “The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and non-OECD Countries”, *OECD Economics Department Working Papers*, forthcoming.

StatLink http://dx.doi.org/10.1787/888933179125

Figure 6.17. **Barriers to trade and investment**

Index scale of 0-6 from least to most restrictive

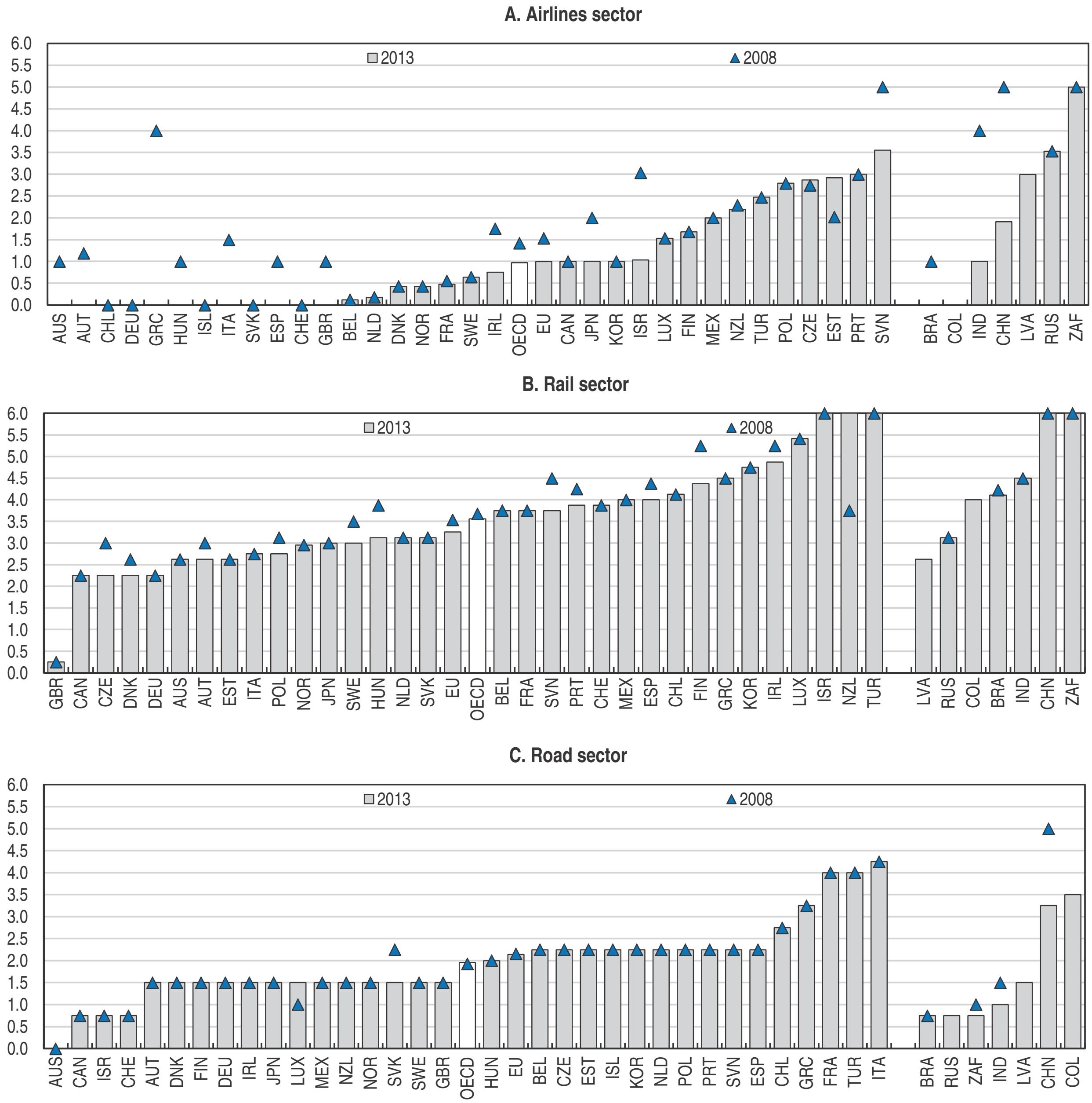


Source: OECD, *Product Market Regulation Database*; and Koske, I., I. Wanner, R. Bitetti and O. Barbiero (2015), "The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and non-OECD Countries", *OECD Economics Department Working Papers*, forthcoming.

StatLink http://dx.doi.org/10.1787/888933179138

Figure 6.18. **Sectoral regulation in the transport sector**

Index scale of 0-6 from least to most restrictive

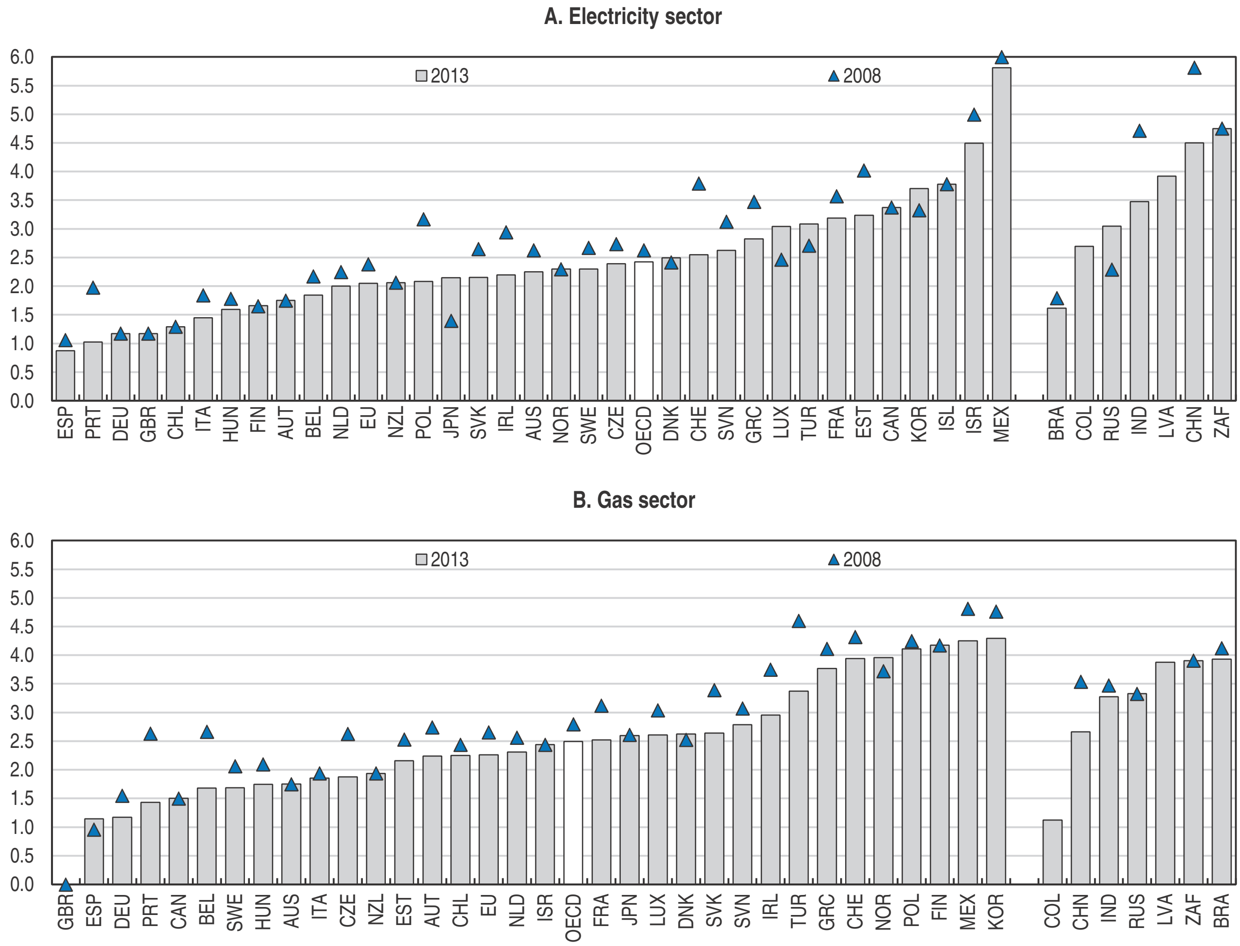


Source: OECD, *Product Market Regulation Database*; and Koske, I., I. Wanner, R. Bitetti and O. Barbiero (2015), "The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and non-OECD Countries", *OECD Economics Department Working Papers*, forthcoming.

StatLink http://dx.doi.org/10.1787/888933179144

Figure 6.19. **Sectoral regulation in the energy sector**

Index scale of 0-6 from least to most restrictive

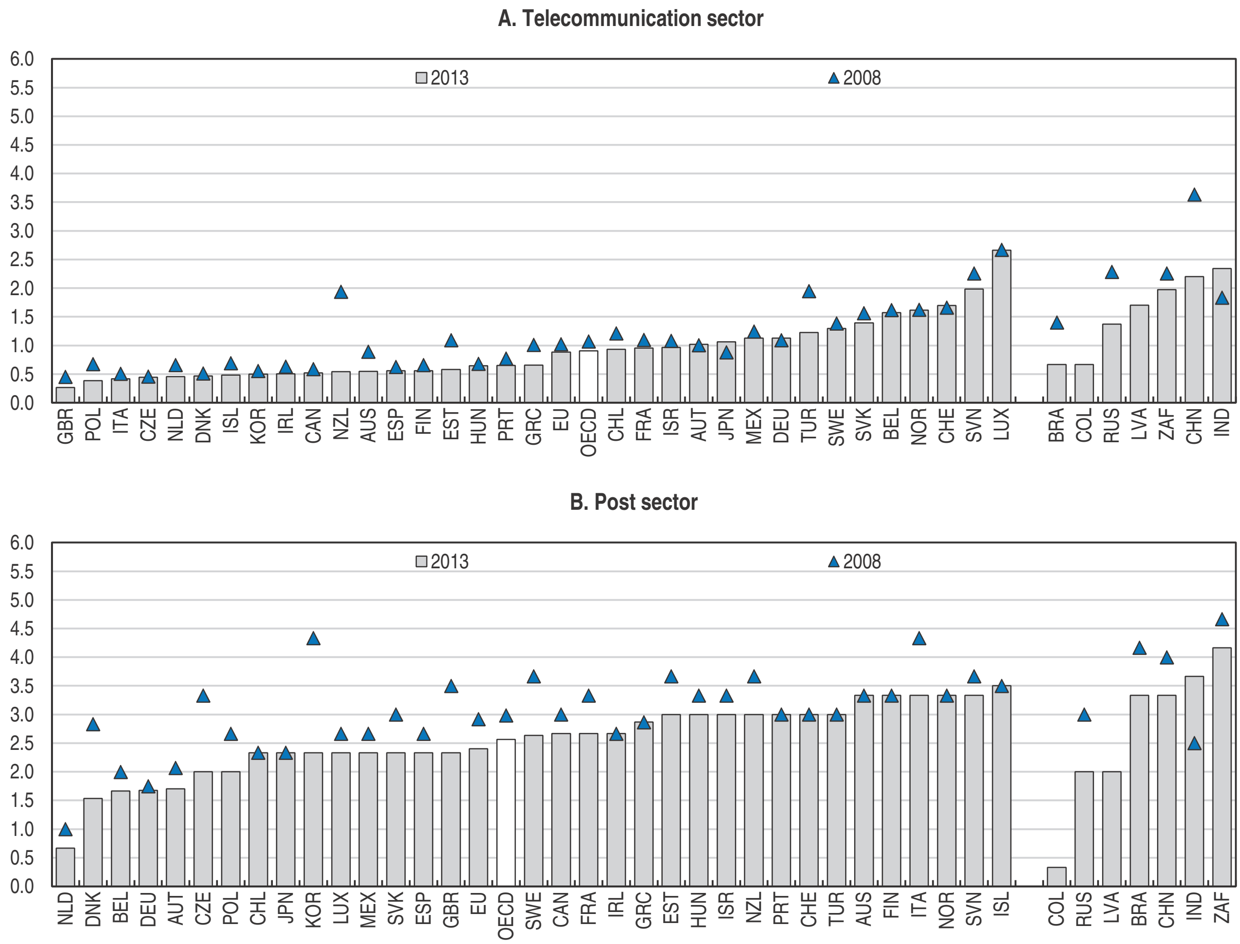


Source: OECD, *Product Market Regulation Database*; and Koske, I., I. Wanner, R. Bitetti and O. Barbiero (2015), "The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and non-OECD Countries", *OECD Economics Department Working Papers*, forthcoming.

StatLink http://dx.doi.org/10.1787/888933179156

Figure 6.20. **Sectoral regulation in the post and telecommunication sectors**

Index scale of 0-6 from least to most restrictive

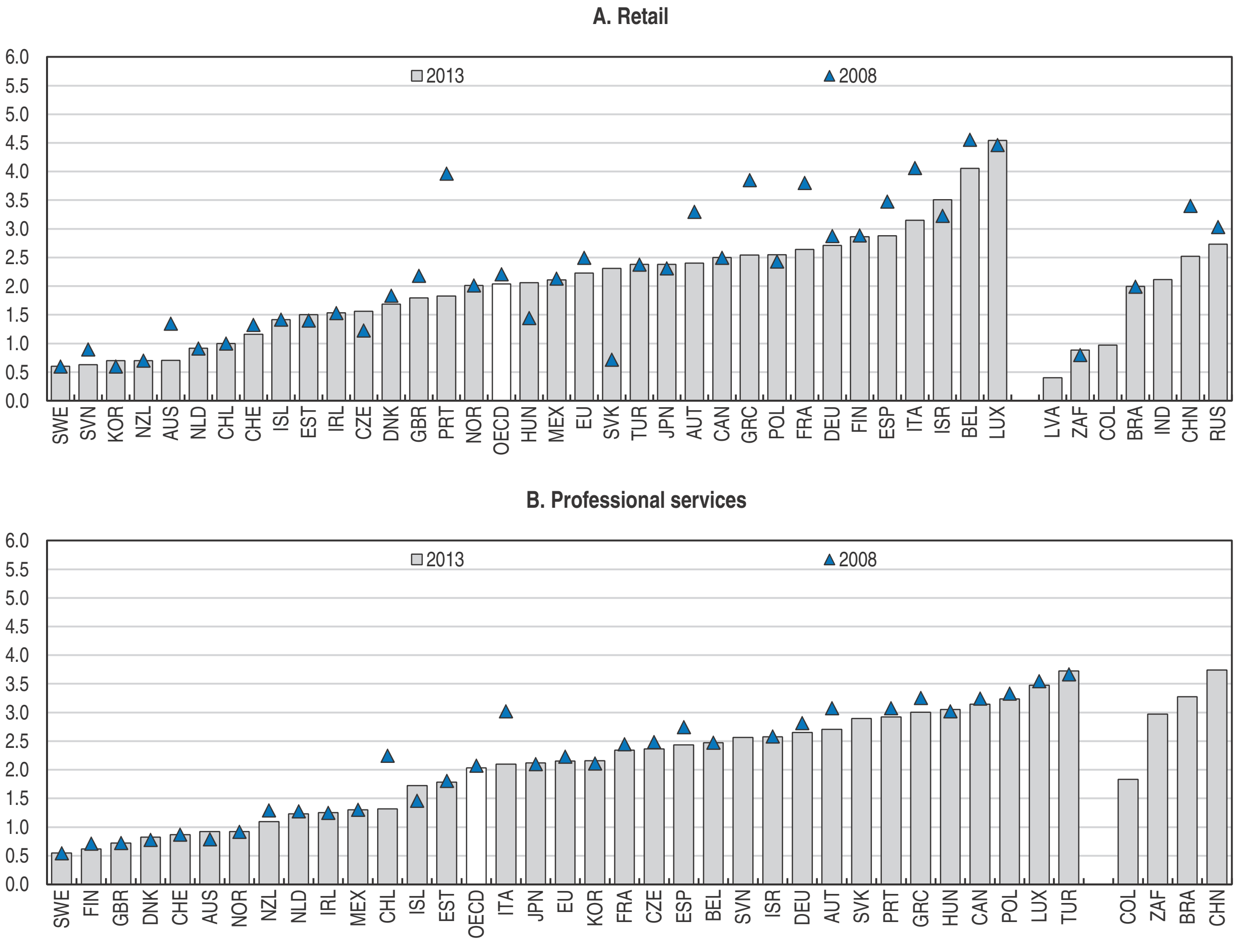


Source: OECD, *Product Market Regulation Database*; and Koske, I., I. Wanner, R. Bitetti and O. Barbiero (2015), "The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and non-OECD Countries", *OECD Economics Department Working Papers*, forthcoming.

StatLink http://dx.doi.org/10.1787/888933179162

Figure 6.21. **Sectoral regulation in retail and professional services**

Index scale of 0-6 from least to most restrictive

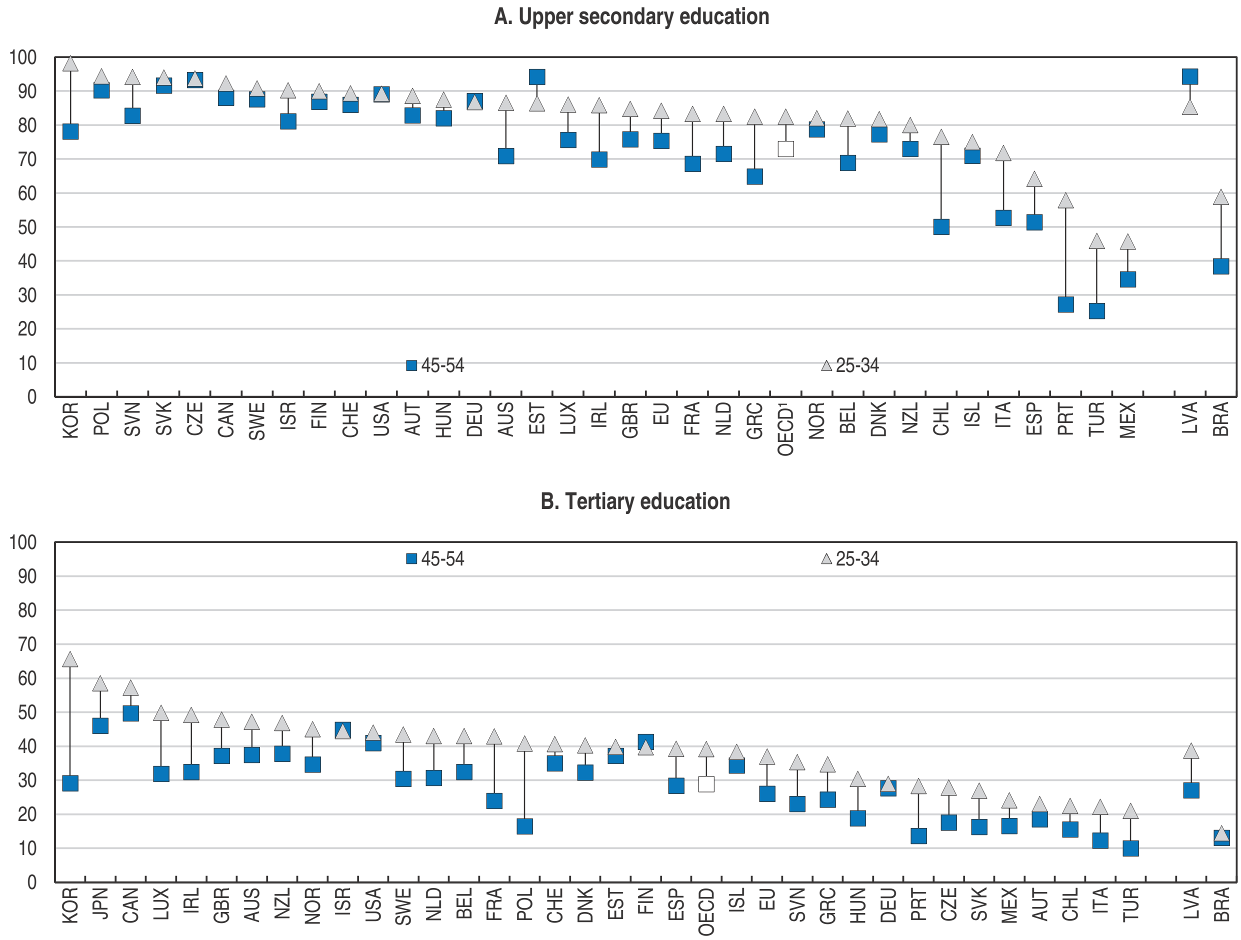


Source: OECD, *Product Market Regulation Database*; and Koske, I., I. Wanner, R. Bitetti and O. Barbiero (2015), "The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and non-OECD Countries", *OECD Economics Department Working Papers*, forthcoming.

StatLink http://dx.doi.org/10.1787/888933179174

Figure 6.22. **Educational attainment**

Percentage of population aged 25-34 and 45-54, 2012

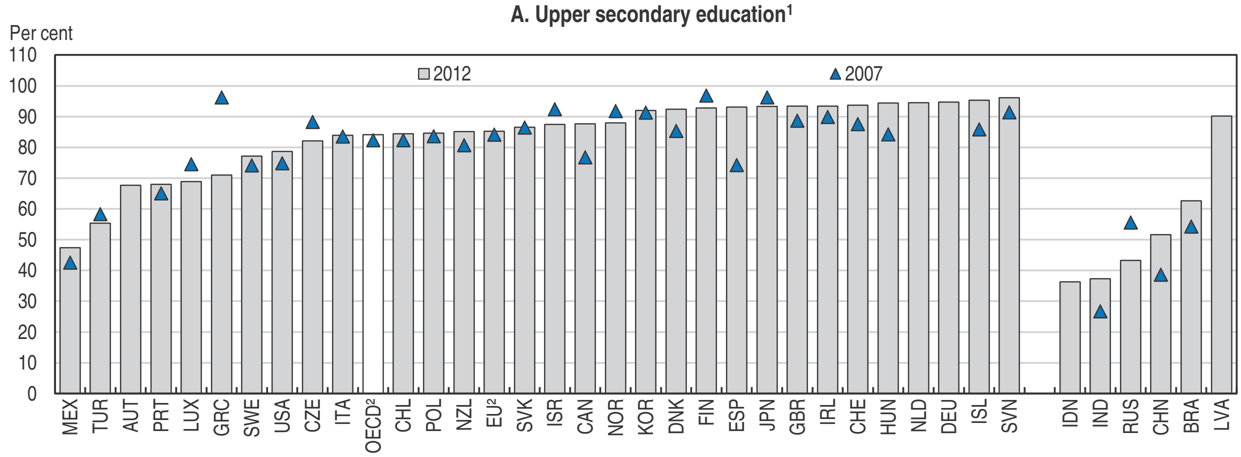


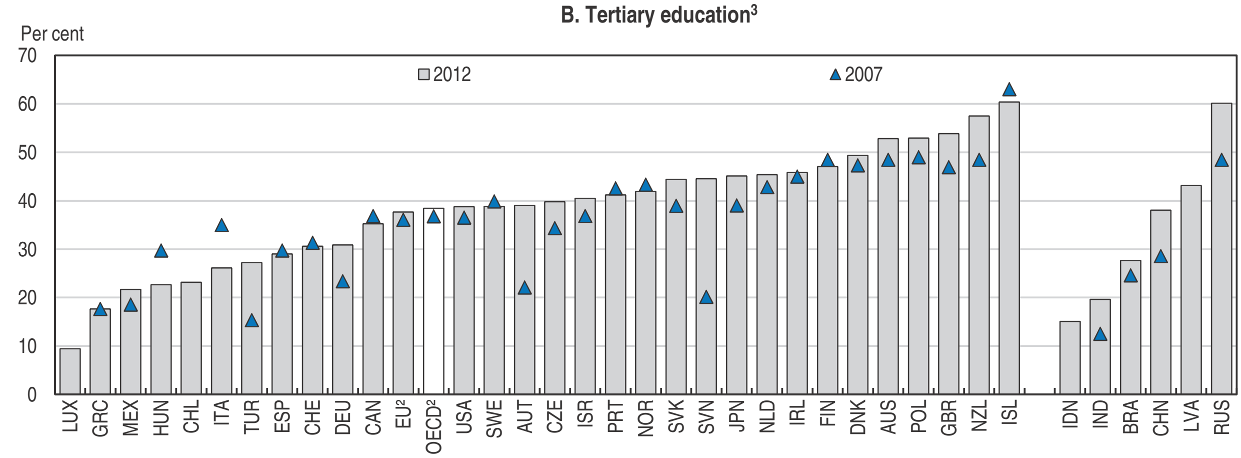
1. Data are missing for Japan.

Source: OECD (2014), *Education at a Glance 2014: OECD Indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eag-2014-en*.

StatLink http://dx.doi.org/10.1787/888933179189

Figure 6.23. **Graduation rates in upper secondary and tertiary education**





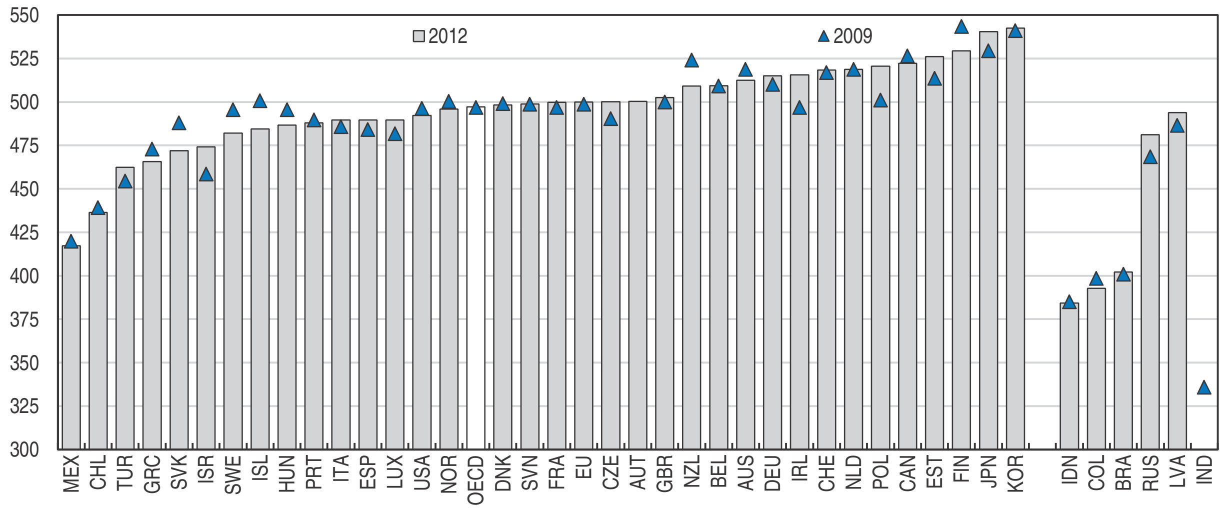
1. First-time graduation rates for typical age at upper secondary level. Due to a statistical feature generated by the "New Opportunities" programme in Portugal, for this country 2011 data refer to graduation rates for students under 25 years old. The last available year is 2013 for China, 2011 for Canada and 2010 for Switzerland; for the BRIICS, data refer to graduation rate at upper secondary level for typical age from the general programmes except for India for which upper secondary education is defined as persons aged 19 year olds who completed upper secondary education.
2. In Panel A, OECD and EU averages exclude Australia, Belgium, Estonia and France for 2007 and 2012 and Austria, Germany and the Netherlands for 2007 only. In Panel B, OECD and EU averages exclude Belgium, Estonia, France and Korea for 2007 and 2012 and Luxembourg, Chile for 2007 only.
3. First-time graduation rates for typical age at the tertiary-type A level. Data refer to 2013 for China (instead of 2012). For Turkey, data refer to 2006 instead of 2007. The last available year is 2011 for Australia, Canada and the United Kingdom; 2007 for Greece; for the BRIICS, data refer to graduation rate for typical age from tertiary-type A programmes (first degree) except for India for which tertiary education refer to the 24 year olds and over who have graduated.

Source: OECD (2014), *Education at a Glance 2014: OECD Indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eag-2014-en*; CEIC for China data; and India National Sample Survey (64th and 68th Rounds).

StatLink http://dx.doi.org/10.1787/888933179193

Figure 6.24. **Educational achievement**

Average of PISA scores in reading, mathematics and science[1]



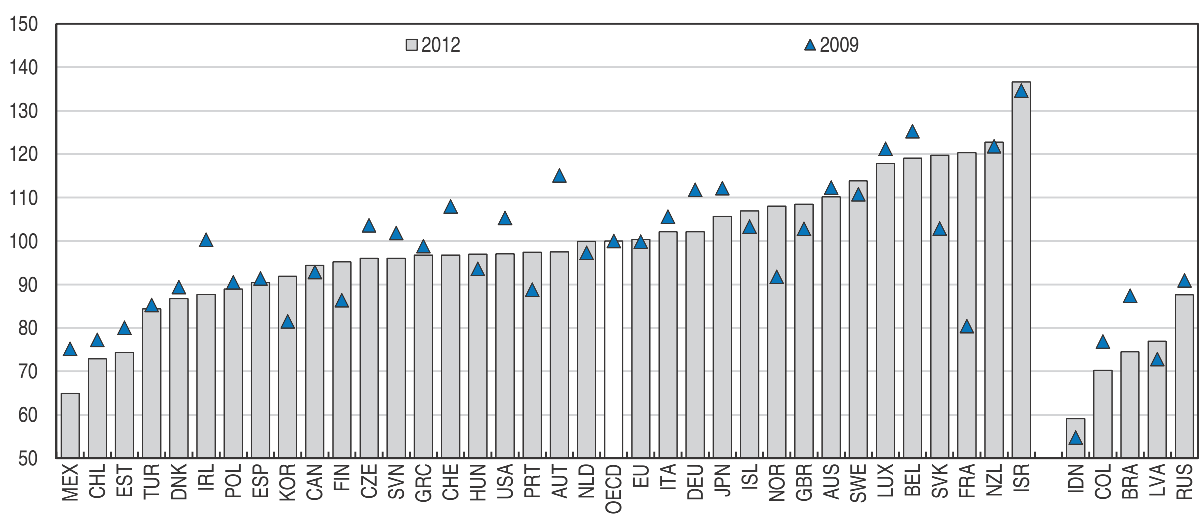
1. PISA is the Programme for International Student Assessment. Data for India is the average for 2010 of the states of Tamil Nadu and Himachal Pradesh and therefore may not be representative of nation-wide outcomes.

Source: OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*.

StatLink http://dx.doi.org/10.1787/888933179205

Figure 6.25. **Variance of educational achievement**

Total variance in PISA scores in reading, mathematics and science[1]



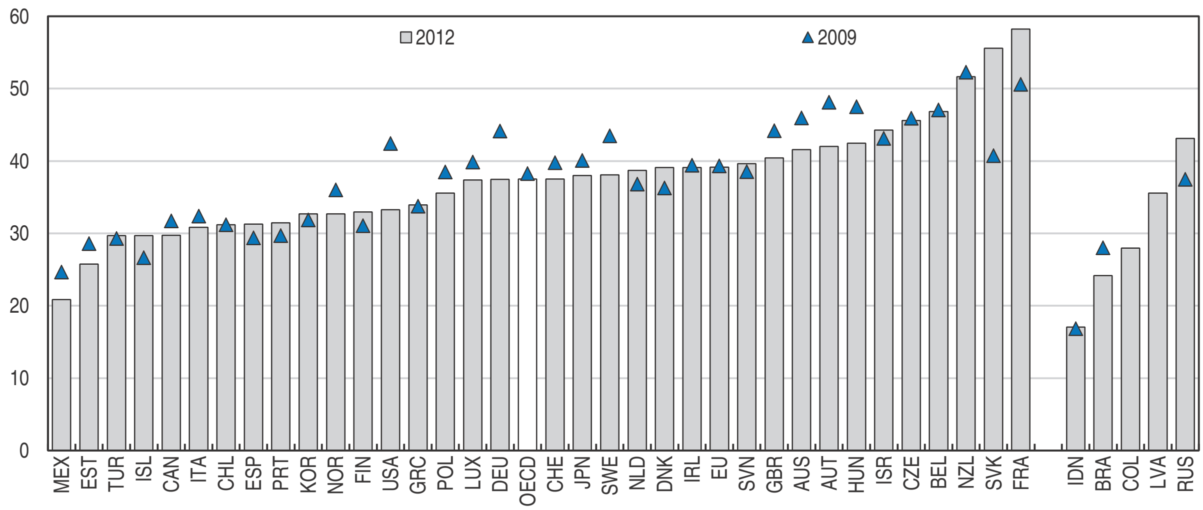
1. PISA is the Programme for International Student Assessment. OECD = 100. Average of PISA scores in mathematics and science only in 2009 for France. The variance components in mathematics, sciences and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the sample of students used in the analysis.

Source: OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264208780-en*; and OECD (2013), *PISA 2012 Results: Excellence through Equity (Volume II): Giving Every Student the Chance to Succeed*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201132-en*.

StatLink http://dx.doi.org/10.1787/888933179215

Figure 6.26. **Influence of socio-economic and cultural background on student reading performance**[1]

Strength of the link between the reading score and the socio-economic index



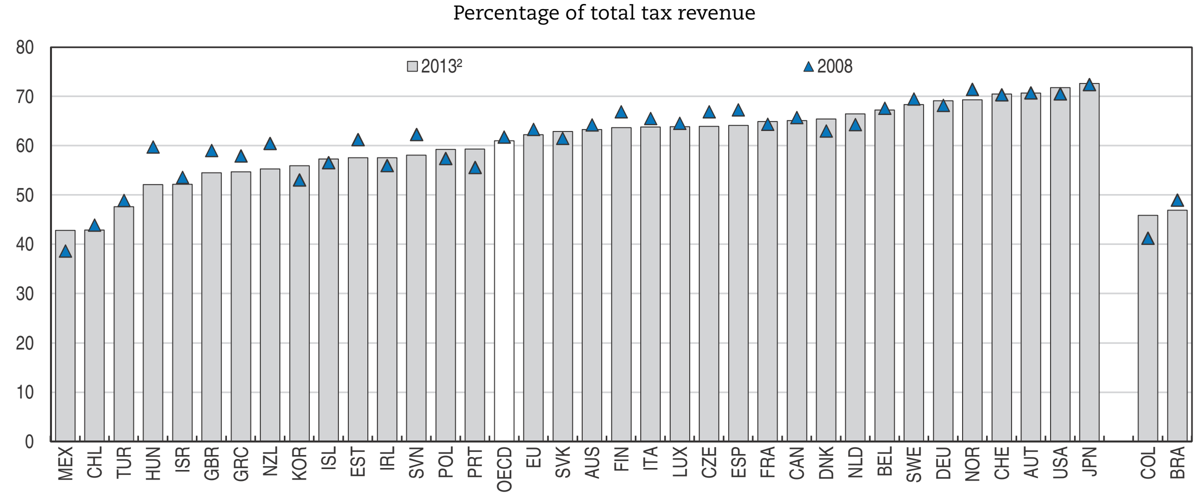
1. Defined as the estimated coefficient from the country-specific regression of PISA reading performance on corresponding index of economic, social and cultural status (ESCS).

Source: OECD (2011), *Education at a Glance 2011: OECD Indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eag-2011-en*; and OECD (2013), *PISA 2012 Results: Excellence through Equity (Volume II): Giving Every Student the Chance to Succeed*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201132-en*.

StatLink http://dx.doi.org/10.1787/888933179225

Figure 6.27. **Share of direct taxes**[1]

Percentage of total tax revenue



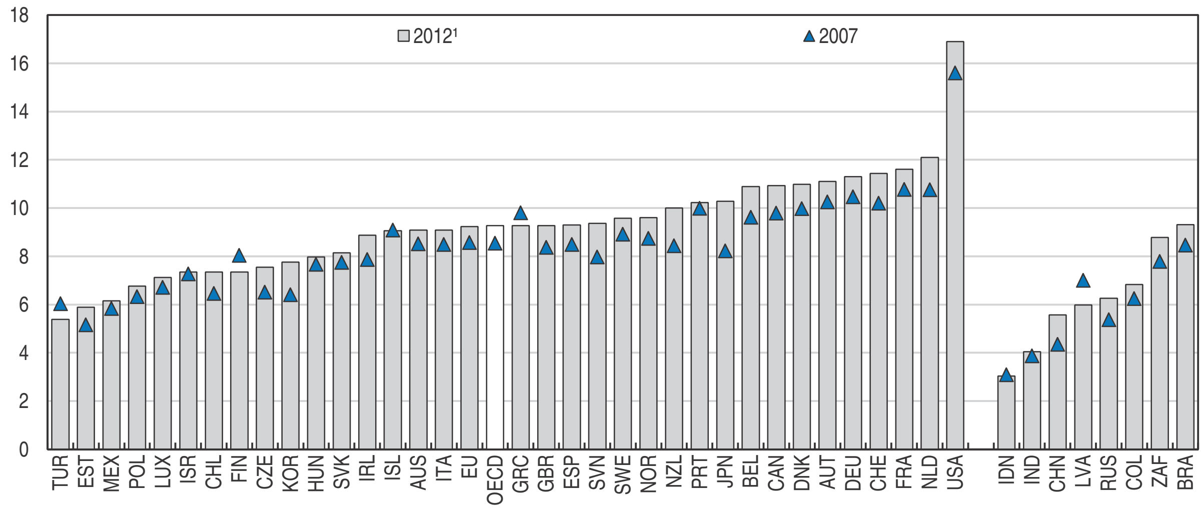
1. Direct taxes aggregate taxes on income, profits and capital gains, social security contributions and taxes on payroll and workforce.
2. The last available year is 2012 for Australia, Brazil, Colombia, Japan, Mexico, the Netherlands and Poland.

Source: OECD, *Revenue Statistics Database*.

StatLink http://dx.doi.org/10.1787/888933179230

Figure 6.28. **Health expenditure**

Percentage of GDP



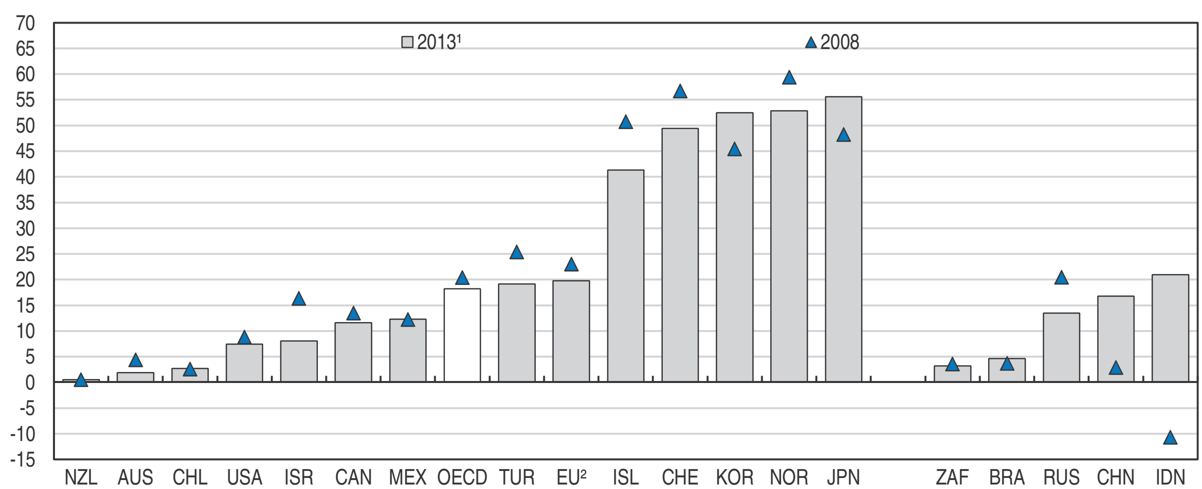
1. 2013 data for Chile, China, Finland, Germany, Iceland, Italy, Korea and Norway; 2011 for Australia, the Netherlands, New Zealand and Portugal.

Source: OECD, *Health Database*; World Bank, *World Development Indicators Database*; and China National Bureau of Statistics.

StatLink http://dx.doi.org/10.1787/888933179245

Figure 6.29. **Producer support estimate to agriculture**

Percentage of farm receipts



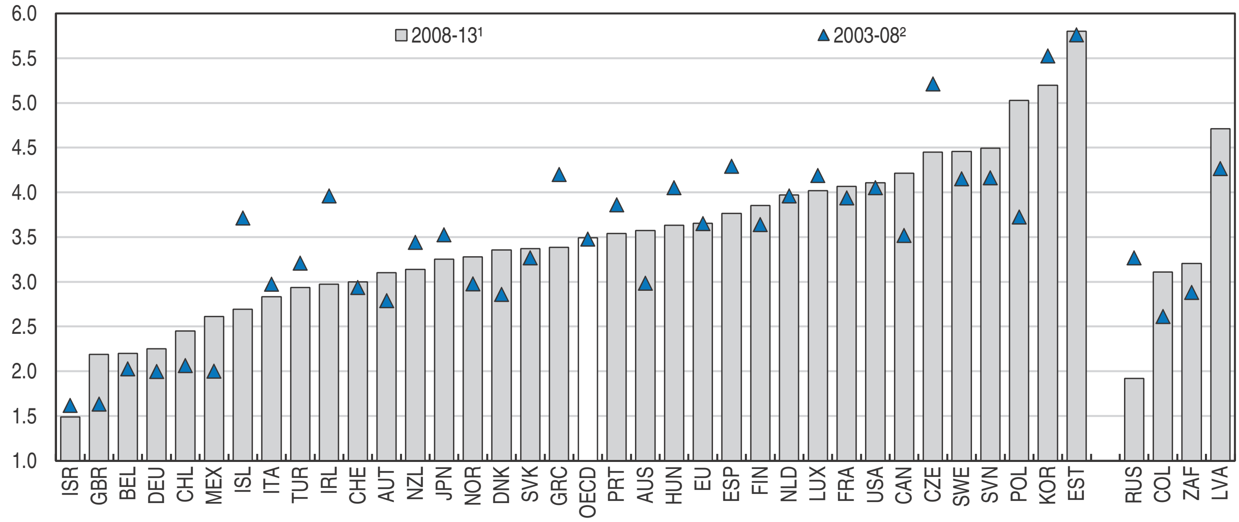
1. Data refer to 2012 for Brazil, China, Indonesia, the Russian Federation and South Africa.
2. EU refers to all 27 members of the European Union.

Source: OECD, *Producer and Consumer Support Estimates Database*.

StatLink http://dx.doi.org/10.1787/888933179254

Figure 6.30. **Public investment**

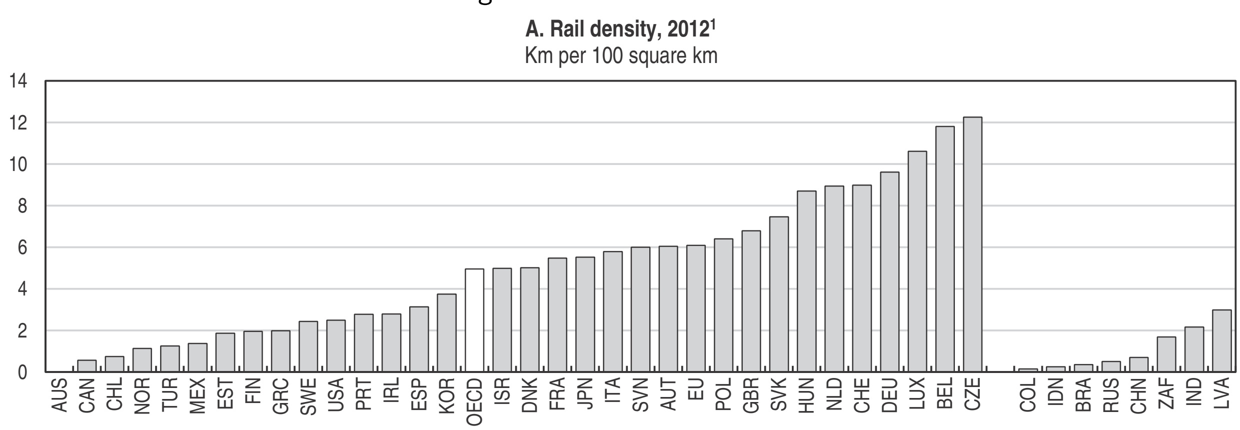
Percentage of GDP

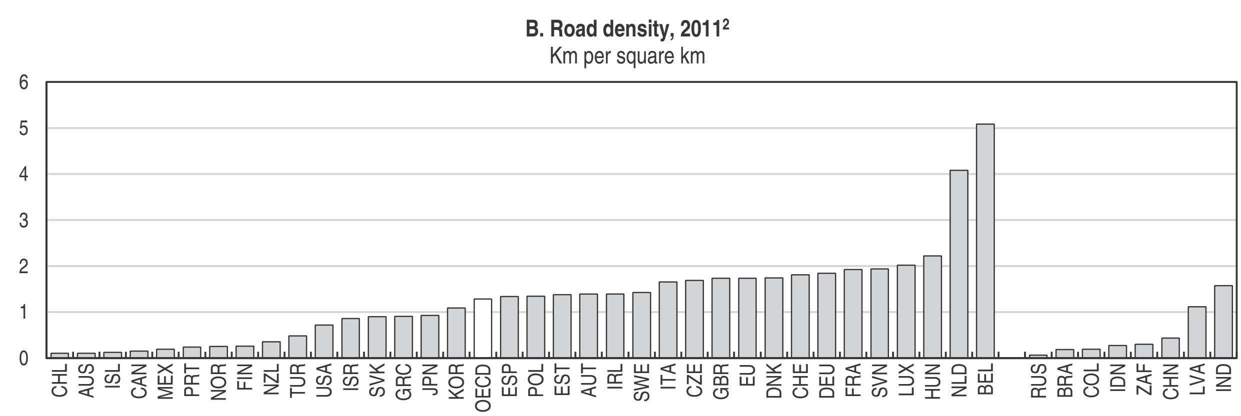


1. Average 2008-10 for Chile; average 2008-12 for the Russian Federation and Colombia.
2. Average 2006-08 for Turkey.
Source: OECD, *Economic Outlook 96 Database*.

StatLink http://dx.doi.org/10.1787/888933179266

Figure 6.31. **Infrastructure**





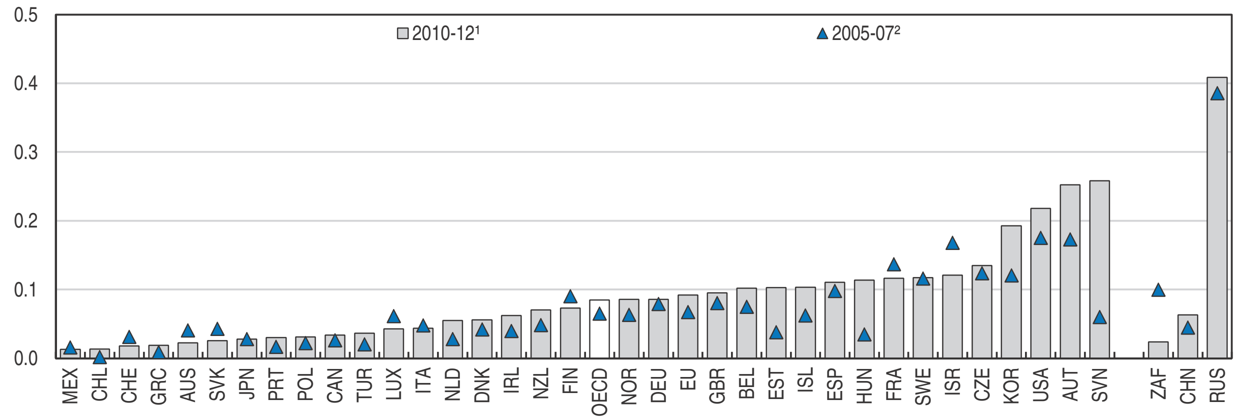
1. 2009 for Colombia. The OECD average excludes Iceland and New Zealand.
2. 2001 for South Africa; 2004 for Canada and Luxembourg; 2005 for Italy and 2010 for Ireland.
Source: World Bank, *World Development Indicators (WDI) Database*.

StatLink http://dx.doi.org/10.1787/888933179271

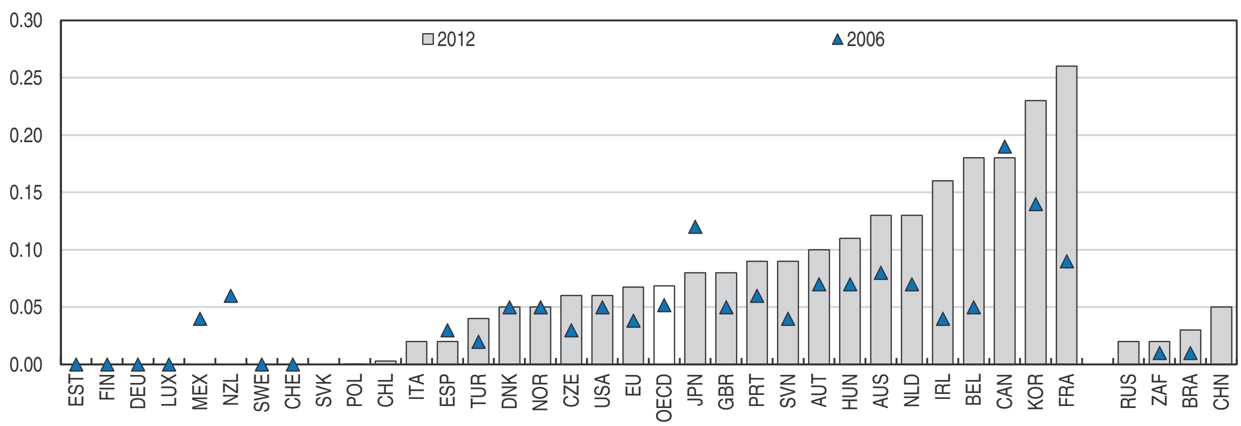
Figure 6.32. **Financial support for private R&D investment**

Percentage of GDP

A. Direct public funding of business R&D



B. Indirect public support through R&D tax incentives[3]



1. Average of years 2011 and 2012 for Greece; average of years 2010 and 2011 for Australia, Belgium, France, Israel, Italy, Mexico, the Netherlands, Portugal, Spain and South Africa; 2012 for Switzerland; 2011 for Austria, Iceland, New Zealand and Sweden; 2009 for Luxembourg.
2. Average of years 2006 and 2007 for Austria; average of years 2005 and 2007 for Denmark, Greece, Luxembourg, the Netherlands, New Zealand and Sweden; 2007 for Chile; 2004 for Switzerland.
3. The last available year is 2011 for Australia, Austria, Belgium, Brazil, Chile, Italy, Mexico, New Zealand, Poland, the Russian Federation, South Africa, Spain, Sweden and the United States; 2009 for China and Luxembourg. Instead of 2006, data refer to 2007 for Belgium, Denmark, Korea, Luxembourg, Mexico, Slovenia and Sweden; 2008 for Chile, New Zealand, Poland, Switzerland, Turkey; 2010 for the Slovak Republic.

Source: Panel A: OECD, *Science and Technology Indicators Database*. Panel B: *OECD R&D Tax Incentive Indicators*, *www.oecd.org/sti/rd-tax-stats.htm*.

StatLink http://dx.doi.org/10.1787/888933179284

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX 16
(12 2015 03 1 P) ISBN 978-92-64-22044-7 – 2015

Economic Policy Reforms

Going for Growth

Going for Growth is the OECD's regular report on structural reforms in policy areas that have been identified as priorities to boost incomes in OECD and major non-OECD countries (Brazil, China, India, Indonesia, the Russian Federation and South Africa). Policy priorities are updated every two years and presented in a full report which includes individual country notes with detailed policy recommendations to address the priorities. The 2015 full report also includes an anniversary chapter looking back on 10 years of structural reforms since the first report in 2005.

Contents:

Consult this publication on line at ***http://dx.doi.org/10.1787/growth-2015-en.***

This work is published on the OECD iLibrary, which gathers all OECD books, periodicals and statistical databases. Visit ***www.oecd-ilibrary.org*** for more information.

OECD*publishing*
www.oecd.org/publishing

ISSN 1813-2715
2015 SUBSCRIPTION
ISBN 978-92-64-22044-7
12 2015 03 1 P